# Annual Report 07

中國基建投資有限公司

China Infrastructure Investment Limited

(Formerly known as Honesty Treasure International Holdings Ltd)

(Stock Code : 600)

# CONTENTS

# CORPORATE INFORMATION

## BOARD OF DIRECTORS

*Executive Directors:*

| | |
|---|---|
| LAW Kar Po | *(Chairman)* |
| HOI Man Pak | *(Vice Chairman)* |
| CHOY Wang Kong | *(Chief Executive Officer)* |
| GAO Feng | |
| YONG Wing Tai, William | |
| CHIANG Kin Tong | |
| LAW Wing Yee, Wendy | |
| LEE Siu Yuk, Eliza | |

*Non-executive Director:*

Leonel Alberto ALVES

*Independent Non-executive Directors:*

LAU Wai Ming#
KWOK Hong Yee, Jesse#
LI Kam Fai, Dominic#

*(# Members of Audit Committee)*

## COMPANY SECRETARY

LAW Chun Choi

## SOLICITORS

*On Hong Kong Law*

Iu, Lai & Li Solicitors
Richards Butler International Law Firm

*On Cayman Islands Law*

W.S. Walker & Company

## AUDITORS

CCIF CPA Limited

## HEAD OFFICE & PRINCIPAL PLACE OF BUSINESS

Room 2007, 20th Floor,
West Tower, Shun Tak Centre,
168-200 Connaught Road Central,
Hong Kong

## REGISTERED OFFICE

The RHB Trust Co., Ltd.
P.O. Box 1787, Second Floor,
One Capital Place,
Grand Cayman, Cayman Islands,
British West Indies

## SHARE REGISTRARS & TRANSFER OFFICE

*Principal Registrars*

The RHB Trust Co., Ltd.
P.O. Box 1787, Second Floor,
One Capital Place,
Grand Cayman, Cayman Islands,
British West Indies

*Registrars in Hong Kong*

Tricor Standard Limited
26/F., Tesbury Centre,
28 Queen's Road East,
Wanchai, Hong Kong

## BANKERS

DBS Bank (Hong Kong) Limited
The Hong Kong and Shanghai Banking Corporation Limited
The Shanghai Commercial Bank Limited
Wing Hang Bank, Limited

# CHAIRMAN'S STATEMENT

2007 marked a turning point for the Group's business. Given the surged land price and the increasing cost of property development in Macau, the Group had to review its investment strategy. In 2007, fortunately, we acquired the interest of a parcel of land located in Hunnan New District, Shenyang, China on concessionary terms, and established the strategic alliance with Pan-China Construction Group, the partner of this project. As such, the Group had an opportunity to cooperate close with a major property developer in the PRC and to participate in such a large project though we had relatively less capital and were unfamiliar with the PRC property market.

Pan-China Construction Group has engaged in the urban development and the investment in construction for years with great achievements. By capitalizing on the extensive business network and rich professional experience of Pan-China Construction Group, the Company expects to further expand its scale of urban construction and property development in China. Also, we believe that our powerful financing capability will facilitate Pan-China Construction Group to acquire more property development project of large scale in prime areas.

We have full confidence in our investment in the property development project in Shenyang. As Hunnan New District is located in the prime lot of Shenyang to which Olympic gymnasium is adjacent, it will stimulate substantially the demand for the property development in the district. During the period from 2006 to the first half of 2007, the gross domestic product of Shenyang saw a double-digit increase which reflected the enormous potential growth of Shenyang. The land property acquired by us will be developed into a landmark composite development project of luxurious residential and commercial properties, comprising shopping malls, hotels as well as office and residential buildings. In the light of the aforesaid promising prospect, we believe that the property project will bring satisfactory income to us after its completion.

In the first quarter of the year, we sold three properties in Macau successfully which contributed respectable revenue to the Group. Hence, with the increase of cash flow, the Group's gearing ratio was reduced sharply and our capability of investment in PRC projects for 2008 was strengthened.

As the constructions of ancillary facilities of urban infrastructure are mostly encouraged by the nation, the management is proactively researching on various infrastructure investment projects recommended by Pan-China Construction Group in order to develop closer cooperation with Pan-China Construction Group and expand our investment portfolio for steady and satisfactory investment returns in the long term.

I will supervise the management to continuously strive hard to identify investment opportunities of great potential and use the Group's financial resources effectively for creating remarkable returns to the shareholders and investors of the Company.

On behalf of the Company and the management, I would like to thank our staff for their contributions to the Group in the past. Their support and devotion is the key to the Group's success.

**Law Kar Po**
*Chairman*

28 April 2008

# MANAGEMENT DISCUSSION AND ANALYSIS

## CHANGE OF COMPANY NAME

The name of the Company has been changed from "Honesty Treasure International Holdings Limited 信寶國際控股有限公司" to "China Infrastructure Investment Limited 中國基建投資有限公司" with effect from 16 January 2008. As the Company has been increasing its investments in the People's Republic of China, the Directors believe that the change of name of the Company would be more consistent with its underlying business and hence this would benefit its future business development.

## BUSINESS REVIEW

During the year under review, the Group commenced the investment and development of commercial properties in the PRC in order to enhance its investment returns and seek better investment opportunities.

In July 2007, the Group entered into the strategic cooperation agreement with Pan-China Construction Group Limited ("Pan-China Construction Group") to establish the strategic alliance. Pursuant to the agreement, both parties shall have an all-round cooperation within and outside the PRC in respect of the construction, investment and operation of urban infrastructure and real estate. The first project under the cooperation between the Group and Pan-China Construction Group Limited is Pan-China Commercial Square (泛華商業廣場) located in Hunnan New District, Shenyan, PRC.

In addition to the development of new investment project, the management took profit from selling part of our investment properties in Macau quickly when the Macau property market rebounded. It resulted in satisfactory investment returns to the Group.

### Hotel and entertainment business

Benefited from the completion and opening of various large-scale casinos and resorts in Macau, the number of Macau visitors has been surging in recent years. Under such circumstances, coupled with the superior geographical location, the year of 2007 recorded 88% of the average occupancy rate of Hotel Golden Dragon as well as an increase of the average hotel room price by approximately 13% over the previous year. In 2007, net gain before taxation of Hotel Golden Dragon and its casino amounted to approximately HK$210,000,000 (excluding the gain on revaluation of properties).

Although the competition of the hotel and gaming industry was increasingly intense, a favorable announcement was made by the government of the Macau Special Administrative Region on 22 April of this year that neither any gambling license nor any land for new casino would be granted in the future. Undoubtedly this new policy will create a positive effect on the prospect of the gaming and entertainment industry in the long run. On the other hand, the Macau government maintained its focus on the promotion of the businesses of conference and exhibition and world's cultural heritage and tourism. The number of Macau visitors increased steadily on a year-on-year basis while a large number of construction projects were underway. As such, the overall economic growth of Macau in the coming years remains promising. The management considers that the business of Hotel Golden Dragon will continue to grow up healthily as benefited from the development of Macau, and to serve as a stable income stream for the Group.

## Property investment and development

From the second half of 2007, the development of the Macau property market started to slowdown. However, the economy of Macau continued to grow rapidly with the favorable effective interest rate while increased imported workers inspired the additional demand for residence, thus driving up the property price and rental. During the past year, the residential property price surged by 35%, and even up to 79% in certain districts. The management is of the opinion that it will be a good opportunity to sell our properties profitably when the property market improves.

### *50 residential units with car parks of Edificio Chu Kuan Mansion*

All residential units with car parks in Edificio Chu Kuan Mansion held by the Group were sold by stages in the first quarter of 2008. The gain will be shown in the interim results for 2008.

### *Tap Siac Concourse as property under development in Macau*

As announced by the Group on 22 April of this year that it entered into the sale and purchase agreement to indirectly sell the interest in the company holding the property under development in da Rua do Tap Siac, which may realize a profit of approximately HK$18,000,000 in book value. This disposal shall be approved by the extraordinary general meeting. The transaction will be completed in late July of this year while the gain will be shown in the final results for 2008.

### *Construction site at Lote TN6, Cheok Ka Chun, Taipa, Macau*

As announced by the Group on 18 April of this year that it would sell the construction site at Lote TN6, Cheok Ka Chun, Taipa, Macau to Mr Lee Gueng Kon, a Korean property developer, at a price of HK$530,000,000 for a profit of approximately HK$216,000,000 in book value. The Group holds a 55% interest in the property. This disposal shall be approved by the extraordinary general meeting. The transaction is expected to complete by late June 2008 while the gain will be shown in the interim results for 2008.

### *Pan-China Commercial Square as property under development in Shenyang, PRC*

In late September of last year, the Group successfully acquired a 70% interest in the development project of Pan-China Commercial Square in Shenyang which was its first commercial development project in the PRC. The project is located in the Hunnan New District, Shenyang, PRC to which the Shenyang Olympic Gymnasium Center is opposite. Hunnan New District is one of the major development districts selected by the Shenyang government. Ten billions of Renminbi were used to build a complete set of ancillary facilities within this new district. To welcome the forthcoming Olympic Games, the commercial projects, hotels and urban supporting facilities were developed quickly in Hunnan New District. Thus, the average price of land within the district in 2007 increased by 100% as compared to that of 2006.

The development project has a site area of more than 75,500 sq. m. which is planned to develop into a landmark composite development project. The project will have a total gross floor area of approximately 472,000 sq. m., comprising residential zones, shopping malls, commercial office buildings, high-class service apartments and 5-star hotels.

# MANAGEMENT DISCUSSION AND ANALYSIS

The construction has been progressing steadily and satisfactorily as scheduled. As at end of March in this year, the residential portion was completed up to the first floor above the ground while the foundation work of Phase I for the commercial portion was completed. The shopping malls and residential buildings for Phase I are expected to have a topping-out work in late this year, and to be put in use upon completion and acceptance in the third quarter of next year. The whole development project is scheduled to complete in the second half of 2010. The overall construction work for McDonald's "Drive-Thru", an independent building of the project, was completed, and this cafe was already opened on 27 September 2007. The business solicitation work for the shopping mall has commenced. For those residential units, we will determine the timetable of the sale by stages based on the property market conditions.

### Leather trading business

As the market competition remained intense, the Group's leather trading business had a turnover of approximately HK$68,000,000 in 2007, representing a decrease of approximately 5.6% over the year of 2006, as a continuously loss-making operation. In view of no improvement during the past few years, the management is considering the best way to deal with the business, and there is the possibility of disposal of this segment.

## FUTURE PLAN

The Group has been trying to identify appropriate investments that meet the Group's investment standards, and to pursue and capture suitable investment opportunities as they may arise. Pan-China Construction Group is an enterprise directly under the Ministry of Construction of the PRC. After more than a decade of steady growth, it has become a PRC urban construction and property developer with considerable size and competitive edge. The strategic alliance between the Group and Pan-China Construction Group will prove beneficial to our prospect.

On 31 March of this year, the Company and Pan-China Construction Group entered into another memorandum of understanding to establish the cooperation between them and Urban Development Bank of Nigeria PLC for participating in the infrastructure projects in Nigeria in the future.

Besides, the Company entered into the framework agreement with the Municipal Government of Fushun City, Liaoning Province and Pan-China Construction Group on 2 April 2008, pursuant to which all parties agreed to develop the ShenFu Ecological City Project with a site area of about 30 $km^2$ within the Fushun Economic Development Zone of Fushun City. The project is planned to develop into a modern commercial center, catering to the demands of the technology, finance, tourism and logistics industries.

## HUMAN RESOURCES

As at 31 December 2007, the Group employed about 65 full-time staff in Hong Kong and People's Republic of China. The Group remunerates employees based on their performance, experience and prevailing industry practices. It also offers benefits such as training programme to staff to enhance their sense of loyalty.

# FINANCIAL REVIEW

## Results

For the year ended 31 December 2007, the Group reported a turnover of HK$96 million, compared with HK$73 million for the year ended 31 December 2006, an increase of approximately 32% from last year. Net profit for the year reached HK$100.6 million (2006: HK$57.3 million). Basic earnings per share: HK3.23 cents (2006: HK2.09 cents).

### *Fund-raising activities*

The Company has issued 2.5% convertible bonds, carrying rights to convert into new Shares at an initial conversion price of HK$0.30 per Share, in the total principal amount of HK$160 million on 24 August 2007.

On 19 December 2007, the Company and the Placing Manager entered into the Placing Agreement pursuant to which the Placing Manager has conditionally agreed to place, on a best effort basis of up to 430,000,000 Placing Shares at a price of HK$0.41 per Placing Share. On 9 January 2008, the Group successfully placed 430,000,000 new Shares at HK$0.41 per Placing Share and the gross proceeds raised approximately HK$176 million.

# LIQUIDITY AND FINANCIAL RESOURCES

Equity attributable to equity holders of the Group as at 31 December 2007 was HK$1,052 million. The Group's net debt-to-capital ratio as at 31 December 2007 was 83.8%.

The net current assets as at 31 December 2007 was HK$89 million while the cash and bank balances as at 31 December 2007 was HK$102 million.

# FINAL DIVIDEND

The Board has resolved not to propose any final dividend for the year ended 31 December 2007 (2006: nil).

# CONTINGENT LIABILITIES

As at 31 December 2007, the Group did not have significant contingent liabilities (2006: nil).

# CHARGE ON ASSETS

As at the balance sheet date, investment property, land use right under development, properties under development, properties held for sale and non-current asset held for sale of the Group amounting to HK$657 million (2006: HK$536 million) were pledged to secure general banking facilities.

# FOREIGN CURRENCIES

During the year under review, most of the business transactions, assets and liabilities of the Group were denominated in Hong Kong Dollars, Renminbi, Macao pataca (MOP) and United States Dollars. The Group had no material foreign exchange exposure risks during the year under review.

# MANAGEMENT DISCUSSION AND ANALYSIS

## PROSPECT OF THE GROUP

Given the rapid increase of the development cost in the Macau property market, the investment return and profit margin for property developers have become less attractive than the past two or three years. Therefore, the Group will put more efforts on its investments in the PRC property development. The management is looking for property developments in different cities of the PRC, including Chengdu, Beijing, Tianjian, Qingdao, Taiyuan and Hainan Island, with a view to expanding the property development portfolio of the Group.

Meanwhile, the management also begins to focus on the ancillary infrastructure investment in PRC cities. This move goes quite well with the current stage of generally full-speed development in the PRC. With the complementary strengthens between the Group and Pan-China Construction Group, we may bring satisfactory returns to our shareholders and investors, and expect to fulfill our corporate responsibilities in respect of the infrastructural development of the country.

The board of directors (the "Board") and the Management of the Company are committed to the principles of corporate governance and to maximize shareholders' value. These principles and objective enhance the transparency, accountability and independence of the Company and its ability to attract investment and protect rights of shareholders.

## COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

The Company has adopted its own code on corporate governance practices which incorporates all the code provisions in the Code on Corporate Governance Practices (the "Code") in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"). The Directors confirm that, throughout the financial year under review, the Company complied with the code provisions of the Code with a deviation of code provision A.4.1 which stipulates that non-executive directors (including independent non-executive directors) should be appointed for a specific term and subject to re-election. The term of office for non-executive directors of the Company (the "Company") and independent non-executive Directors is not specific. It is provided in the Company's articles of association that all the Directors are subject to retirement by rotation at least once every three years at the annual general meeting and are eligible for re- appointment. The Directors are of the view that such provision in Company's articles of association has been able to safeguard corporate governance.

## MODEL CODE FOR DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted a stringent code of conduct governing directors' securities transactions on terms no less exacting than required standard set out in the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 to the Listing Rules throughout the financial period under review. Having made specific enquiry of all Directors, the Directors confirmed that they have complied with the required standard set out in the Model Code and the Company's code of conduction regarding directors' securities transactions.

## BOARD OF DIRECTORS

During the financial year under review, the Board was made up of seven executive Directors, one non-executive Director and three independent non-executive Directors and they are collectively responsible for the success of the Company. Each Director has a duty to act in good faith in the best interests of the Company for the manner in which the affairs of the Company are managed, controlled and operated. The Board, as at 31 December 2007, comprised:

(a) seven executive Directors, namely Mr. Law Kar Po (Chairman), Hoi Man Pak (Vice Chairman), Mr. Choy Wang Kong (Chief Executive Officer), Yong Wing Tai, William, Mr. Chiang Kin Tong, Ms. Law Wing Yee, Wendy (who is a daughter of Mr. Law Kar Po) and Ms. Lee Siu Yuk, Eliza.

(b) one non-executive Director: Mr. Leonel Alberto Alves.

(c) three independent non-executive Directors required under Rule 3.10(1) of the Listing Rules, namely Mr. Li Kam Fai, Dominic, Mr. Lau Wai Ming and Mr. Kwok Hong Yee, Jesse. Two of them have appropriate professional qualifications, accounting and related financial expertise required under Rules 3.10(2) of the Listing Rules.

The Company considers that the Board has a range of the necessary skills and experiences for discharging their duties. All Directors have been kept informed on a timely basis by the Senior Management of major changes that may affect the Company's business.

## INDEPENDENT PROFESSIONAL ADVICE

Directors may, in appropriate circumstances, take independent professional advice or external consultants at the Company's expense. Professional consultants including senior counsel and public relations company. Senior counsel was engaged to provide the Board with advice on legal matters and the public relations have given the Board and its Senior Management opinions on fortifying the corporate image.

## BOARD MEETINGS

The Board meets regularly to set the objectives of the Company, make decisions on strategic plans and budgets, monitor the performance of the Senior Management, determine and review the strategy of the Company, and oversee the Company's compliance with statutory and regulatory obligations ensuring there is a sound system of internal control and risk management with a goal of protecting the interests of all shareholders.

Sufficient notices accompanying with agendas for regular and non-regular board meetings were given to all of the directors so that full attendance could be attained and the best business decisions could be made with ample information supplied. The Board conducts meeting on a regular and ad hoc basis, as required by business needs.

The Board held totally 8 board meetings during the year under review and the attendance of individual director is recorded as follows:

**Attendance Record of Board Meetings (1 January 2007 – 31 December 2007)**

| | Attendance | Attendance Rate |
|---|---|---|
| **Number of board meetings** | **8** | |
| **Executive Directors** | | |
| LAW Kar Po *(Chairman)* | 8/8 | 100% |
| HOI Man Pak *(Vice Chairman)* | 6/8 | 75% |
| CHOY Wang Kong *(Chief Executive Officer)* (appointed on 20 April 2007) | 7/7 | 100% |
| YONG Wing Tai, William (appointed on 20 April 2007) | 5/7 | 71% |
| CHIANG Kin Tong (appointed on 20 April 2007) | 5/7 | 71% |
| LAW Wing Yee, Wendy | 3/8 | 38% |
| LEE Siu Yuk, Eliza | 8/8 | 100% |
| CHIANG Pedro *(Chairman)* (resigned on 20 April 2007) | 1/2 | 50% |
| WU Ka I, Miguel *(Chief Executive Officer)* (resigned on 20 April 2007) | 2/2 | 100% |
| UNG Choi Kun (resigned on 20 April 2007) | 1/2 | 50% |
| **Non-executive Director** | | |
| Leonel Alberto ALVES | 0/8 | 0% |

| | Attendance | Attendance Rate |
|---|---|---|
| **Independent Non-executive Directors** | | |
| LI Kam Fai, Dominic (appointed on 20 August 2007) | 4/5 | 80% |
| LAU Wai Ming | 8/8 | 100% |
| KWOK Hong Yee, Jesse | 6/8 | 75% |
| WONG King Lam, Joseph (resigned on 20 August 2007) | 3/3 | 100% |

At the date of this annual report, the Company has arranged for appropriate liability insurance to indemnify its Directors for their liabilities arising out of performance of their duties. The insurance coverage is reviewed on an annual basis.

## INDEPENDENT NON-EXECUTIVE DIRECTORS

In compliance with Rules 3.10(1) and 3.10(2) of Listing Rules, the Company has appointed three independent non-executive Directors, two of whom have financial management expertise, which contributes to the effective direction of the Company. The Board is aware of the other commitment of the independent non-executive Directors and is satisfied that these do not conflict with their duties as directors of the Company. The Board has received from each of them the annual confirmation of independence required by Rule 3.13 of the Listing Rules. Based on those confirmations, the Board considers that each of the independent non-executive Directors to be independent.

The terms and conditions of appointing the independent non-executive directors are available for inspection at the Company's registered office.

## CHAIRMAN AND CHIEF EXECUTIVE OFFICER

In compliance with code provision A.2.1 of the Code and to reinforce the respective independence and accountability, the role and function of the Chairman and the Chief Executive Officer of the Company are segregated.

Since 17 May 2007, Mr. Law Kar Po was the Chairman of the Company while Mr. Choy Wang Kong was the Chief Executive Officer of the Company. Their respective responsibilities are clearly established and defined by the Board in writing.

## THE BOARD AND SENIOR MANAGEMENT

The Board, headed by the Chairman, is responsible for formulation and approval of the Company's development and business strategies and policies, approval of annual budgets and business plans and supervision of the Senior Management for the best interest of the Company.

The task of the Senior Management is the successful implementation of the strategy and direction as determined by the Board. In doing so, they must apply business principles and ethics which are consistent with those expected by the Board and shareholders. The Board delegated the Senior Management to locating investment opportunities, implementation of internal control and risk management, compiling financial reports and discharging day-to-day management of the Company's operations. The Board establishes the strategic direction of the Company and monitors the performance of Senior Management. The Senior Management is responsible for the day-to-day operations and administration function of the Group under the leadership of the executive Directors. Powers delegated by the Board to the Senior Management include implementation of the strategy and direction determined by the Board, operation of the Group's daily businesses and compliance with applicable laws and regulations.

During the year under review, the Board reviewed the remuneration packages of the Directors and the Senior Management, including discretionary bonus, which are based on individual performance, skill and knowledge, involvement in the Group's affairs and performance and profitability of the Group.

## BOARD COMMITTEES

The Board has established internal committees which are of no less exacting terms than those set out in the Code on Corporate Governance Practices of the Listing Rules. They are Compensation Committee, Nomination Committee and Audit Committee. To further reinforce independence, the Compensation Committee, Nomination Committee and Audit Committee are structured to include a majority of independent non-executive Directors.

## COMPENSATION COMMITTEE

The Compensation Committee was chaired by Mr. Law Kar Po with committee members comprising three independent non-executive Directors: Mr. Li Kam Fai, Dominic, Mr. Lau Wai Ming and Mr. Kwok Hong Yee, Jesse. The Compensation Committee makes recommendations to the Board for the remunerations and benefits of the Chairman, the Directors and the Senior Management of the Company. The responsibilities of the Compensation Committee are described in the terms of reference adopted during the year under review. Details of the remunerations of the Directors are shown on pages 60 to 62 of this Annual Report. The Compensation Committee had met once during the financial year under review.

## NOMINATION COMMITTEE

The members of the Nomination Committee included the three independent non-executive Directors (Mr. Li Kam Fai, Dominic, Mr. Lau Wai Ming and Mr. Kwok Hong Yee, Jesse) with Mr. Law Kar Po as the Committee Chairman. The Nomination Committee is responsible for making recommendations to the Board for its approval on the appointment of Directors, evaluation of board composition and the management of board succession with reference to certain guidelines as endorsed by the Committee. These guidelines take account of appropriate industry experience, professional ethics and knowledge, personal skills and time commitments of members. The Nomination Committee carries out the process of selecting and recommending candidates for directorship including the consideration of referrals and engagement of external recruitment professionals when necessary. The Committee held three meetings during the year under review. The nomination procedures adopted by the Nomination Committee include: the Chairman of the Committee, in consultation with the person responsible for human resources and the secretary of the Nomination Committee, should be primarily responsible for drawing up and approving the agenda for each Nomination Committee meeting. Potential candidates are then considered at the Nomination Committee meetings based on their experience, professional qualifications and their expected remuneration packages.

## AUDIT COMMITTEE

The Audit Committee reviews the Company's financial reports, internal controls and corporate governance issues and makes relevant recommendations to the Board. The written terms of reference which describes the authority and duties of the Audit Committee has been prepared and adopted with reference to "A Guide for The Formation of An Audit Committee" and "A Guide for Effective Audit Committee" published by the Hong Kong Institute of Certified Public Accountants, and amended in accordance with the Code. All the committee members are independent non-executive Directors and two of them possess appropriate professional qualifications, accounting or financial management expertise. The Chairman of the Committee, Mr. Li Kam Fai, Dominic, is a qualified accountant and has the relevant financial experience. Other members are Mr. Lau Wai Ming and Mr. Kwok Hong Yee, Jesse. None of the Audit Committee members are members of the former or existing auditors of the Company.

The Audit Committee met twice in 2007. During the meetings, the Audit Committee reviewed the accounting principles and practices adopted by the Group, the interim and annual reports of the Group and discussed with the Senior Management on auditing, internal control and financial reporting matters.

**ATTENDANCE RECORD OF AUDIT COMMITTEE MEETINGS**
**(1 January 2007 – 31 December 2007)**

| | Attendance | Attendance Rate |
|---|---|---|
| **Number of audit committee meetings** | **2** | |
| **Independent Non-executive Directors** | | |
| LI Kam Fai, Dominic (appointed on 20 August 2007) | 1/1 | 100% |
| LAU Wai Ming | 2/2 | 100% |
| KWOK Hong Yee, Jesse | 2/2 | 100% |
| WONG King Lam, Joseph (resigned on 20 August 2007) | 1/1 | 100% |

## AUDITOR'S REMUNERATION

The Audit Committee is satisfied with the process, effectiveness, independence and objectivity of CCIF CPA Limited.

## DIRECTORS' RESPONSIBLITIES FOR THE FINANCIAL STATEMENTS

The Directors aim to present the financial statements of the Company in accordance with the statutory requirements and applicable accounting standards. The Directors ensure the publication of financial statements of the Company in a timely manner that the final and interim results of the Company are announced within the four months and three months limit respectively after the end of the relevant periods prescribed under the Listing Rules.

The financial statements of the Company for the year ended 31 December 2007 have been reviewed by the Audit Committee and audited by the external auditors, CCIF CPA Limited. The Directors acknowledge their responsibilities for preparing the financial statements of the Company and presenting a balanced, clear and comprehensive assessment of the Company's performance and prospects. They are not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the ability of the Company to continue as a going concern. The Statement of the Auditors about their reporting responsibilities on the Financial Statements is set out in the Independent Auditor's Report.

## INTERNAL CONTROL

The Board is committed to managing risk and to controlling its business and financial activities so as to maximize profitable business opportunities, avoid or reduce risks which can cause loss or damage to reputation, ensure compliance with applicable rules and regulations, and enhance resilience to external events. The Board has delegated to the Senior Management the implementation of such systems of internal control as well as risk management. The effectiveness and adequacy of the systems of internal control and risk management are reviewed periodically by the Board and the Audit Committee. Based on the assessment made by them for the year under review, the Board is satisfied that the internal controls and accounting systems of the Company have been in place and function effectively. The internal controls and accounting systems are designed to provide reasonable assurance that material assets are protected, business risks attributable to the Company are identified and monitored, material transactions are executed in accordance with management's authorization and the accounts are reliable for publication.

## INVESTOR RELATIONS

The Company continues to pursue a proactive policy of promoting corporate transparency and communications with potential investors and investment community through its mandatory interim and final reports. The Senior Management responsible for investor relations holds meetings with press reporters and potential strategic investors to keep them abreast of the Company's development.

## COMMUNICATION WITH SHAREHOLDERS

The Board recognizes the importance of good communications with all shareholders so that they can exercise their rights as shareholders in an informed manner. Besides regular distribution of financial reports, the Company has a corporate website to foster effective communications with the shareholders. It is maintained to disseminate Company's announcements and presentations, shareholders' information and other relevant financial and non-financial information on a timely basis.

Another regular dialogue with shareholders is the annual general meeting. It provides a useful forum for shareholders to exchange views with the Board.

# DIRECTORS & SENIOR MANAGEMENT

## EXECUTIVE DIRECTORS

**Mr. LAW Kar Po**, Chairman, aged 59, is presently the managing director of Lobo Investment Limited. He has over 30 years of experience in hotel investment, property investments, manufacturing and retailing businesses. Mr. Law is also the director of Hotel Golden Dragon (Macao) Company Limited. He is responsible for the setting of strategies of the Group and joined the Group in 2004.

Mr. Law is also the director of Canasta Overseas Group Limited, Central Bingo Group Limited, China Chen Holdings Limited, China Infrastructure Limited, Fast Action Developments Limited, Honesty Services Limited, Honesty Treasure Limited, Parsinno International Limited, Pearl Oriental Macau Limited, Prospect Sync Holdings Ltd, Star Palace Enterprises Limited and Super Times Far East Limited, all of which are subsidiaries of the Company. He is the father of Ms. Law Wing Yee, Wendy.

**Mr. HOI Man Pak**, aged 47, has over 20 years of experience in the tourism, hotel operations and entertainment business in Macau. He is also a director of the Hotel Golden Dragon (Macao) Company Limited. Mr. Hoi is a member of the Macau Tourism Development Committee of the Macau Government and a member of the Fujian-Macao Economic Cooperation Promotion Committee. He is responsible for the development, management and operation of hotel business of the Group and joined the Group in 2005.

**Mr. CHOY Wang Kong**, aged 62, is the Managing Director of Zhi Hua (China) Investment Co. Ltd.(志華(中國)投資有限公司). Mr. Choy has 30 years of experience in property development, manufacturing and natural resources exploration in Macau and the mainland China, and he comprehends very well the Macau's property market. Mr. Choy is mainly responsible for the property developments of the Group. Mr. Choy joined the Group in 2007.

**Mr. GAO Feng**, aged 37, has 12-year experience in property development, project management, construction project and investments, in particular, in the Peoples Republic of China. Mr. Gao holds a Master degree of Business Administration from Keuka College, USA. He is responsible for the fund management and investors relationship of the Company and he joined the Group in 2008.

**Ms. LAW Wing Yee, Wendy**, aged 29, is a qualified solicitor in Hong Kong. Ms. Law holds a LLB degree from University of London, UK and the Postgraduate Certificate in Laws from University of Hong Kong. She is responsible for overall business development. Ms. Law joined the Group in 2004.

Ms. Law is also the director of Canasta Overseas Group Limited, City United Developments Limited, Elite Star Development Limited, Gold Oasis Development, Honesty Services Limited, Honesty Treasure Limited, Pearl Oriental Macau Limited, Prospect Sync Holdings Limited and Star Palace Enterprises Limited all of which are subsidiaries of the Company. She is a daughter of Mr. Law Kar Po.

**Ms. LEE Siu Yuk, Eliza**, aged 47, has over 20 years of experience in business operation, investment, marketing and project management. Ms. Lee holds a Master degree of Business Administration from Murdoch University, Australia. Ms. Lee is responsible for the implementation of corporate policy, business development plans, administration, the management of daily operation, marketing functions and general affairs of the Group. She joined the Group in 2004.

Ms. Lee is also the director of Canasta Overseas Group Limited, Central Bingo Group Limited, China Chen Holdings Limited, China Infrastructure Limited, Fast Action Developments Limited, Honesty Services Limited, Honesty Treasure Limited, Honesty Treasure Management Limited (Macao), Pan-China (Shenyang) Real Estate Development Limited (China), Parsinno International Limited, Pearl Oriental Macau Limited, Prospect Sync Holdings Ltd, Son Pou Real Estate Company Limited (Macao), Star Palace Enterprises Limited and Super Times Far East Limited all of which are subsidiaries of the Company.

# DIRECTORS & SENIOR MANAGEMENT

**Mr. YONG Wing Tai, William**, aged 46, is the Managing Director of The First International Property Planning & Management Company Limited in Macau. Mr. Yong has ample experience in the field of real estate management project development, with specialty in the business administration and the financial managements. Mr. Yong graduated from the University of British Columbia in Canada. He is responsible for the project planning and management of the properties development of the Group. Mr. Yong joined the Group in 2007.

**Mr. CHIANG Kin Tong**, aged 24, is a Director of Kin Wo Property Company Limited (建和物業有限公司) in Macau. Mr. Chiang holds a Bachelor degree of Science in Business Administration. Mr. Chiang is responsible for the marketing of the property development of the Group. He is a son of Mr. Chiang Pedro. Mr. Chiang joined the Group in 2007.

## NON-EXECUTIVE DIRECTOR

**Mr. Leonel Alberto ALVES**, aged 50, is a solicitor with over 20 years of experience serving for the Government of the Macau SAR. He obtained his Bachelor degree in Law from the Universidade Classica de Lisboa (里斯本傳統大學) in 1980. He is a member of the Legislative Assembly of Macau SAR since 1984, executive committee members of the Executive Council of the Macau SAR and the Chief Executive Election Committee of the Macau SAR, the chairman of Comissao de Fiscalizacao da Disciplina das Forcas e Servicos de Seguranca de Macau (澳門保安部隊及保安部門紀律監察委員會) and the President of the General Meeting of the Sacred House of Mercy of Macao. Mr. Alves joined the Group in 2005.

## INDEPENDENT NON-EXECUTIVE DIRECTORS

**Mr. LAU Wai Ming**, aged 52, has been a practising member of the Hong Kong Institute of Certified Public Accountants since 1986. He was an accountant of Staveley Far East Engineering Limited; a member company of an UK listed company. Mr. Lau is also a director of an association organizing seminars focusing on cultural exchange between east and west for business executives, professionals and civil servants in various cities. Mr. Lau joined the Group in 2005.

**Mr. KWOK Hong Yee, Jesse**, aged 54, is both an independent solicitor and notary in Messrs. Jesse H. Y. Kwok & Co. with substantial previous working experiences acting as solicitors of the Supreme Courts in Hong Kong, the United Kingdom and Singapore. He obtained his Bachelor of Laws (LLB) and Master of Laws (LLM) in Civil Laws from the Peking University in the PRC. Mr. Kwok was appointed as a Temporary Magistrate between December 1994 and March 1995, a Temporary Adjudicator of the Small Claims Tribunal and a Panel Arbitrator. He is also members of the Law Society of Hong Kong, the Law Society of England, Singapore Academy of Law, the Chartered Institute of Arbitrators, the Hong Kong Securities Institute, the Hong Kong Institute of Directors and he is also a committee member of the Society of Notaries. Mr. Kwok joined the Group in 2005.

**Mr. LI Kam Fai, Dominic**, aged 55, has more than 26-year experience in accounting industry. Mr. Li is the sole proprietor of Dominic K.F. Li & Co., providing accounting, statutory and special audits, tax consultancy, due diligence for mergers and acquisitions and business advisory services. Mr. Li is an associate member of Institute of Chartered Accountants in England and Wales and a fellow member of Hong Kong Institute of Certified Public Accountants. Mr. Li joined the Group in 2007.

## SENIOR MANAGEMENT

### *Group Affairs*

**Mr. LAW Chun Choi**, aged 48, is the Financial Controller of the Group and the Qualified Accountant and the Company Secretary of the Company. He is a rich-experienced accountant. Mr. Law has extensive experience in diversified business in Asia-Pacific. Mr. Law gradated from The Hong Kong Polytechnic University with a Postgraduate Diploma in Corporate Administration and Professional Diploma in Accountancy. He is a fellow member of the Hong Kong Institute of Certified Public Accountants, the Chartered Association of Certified Accountants, the Hong Kong Institute of Company Secretaries and the Institute of Chartered Secretaries and Administrators. He joined the Group in 2005.

### *Properties Development*

**Mr. YANG Tian Ju**, aged 47, is the Vice-Chairman of Pan-China (Shenyang) R.E. Development Limited. He is a senior engineer and a national first-class certified architect. He is also the leader of urban construction and infrastructure expert team of China Association for the Promotion of Industrial Development under NDRC, the Vice-Chairman of Business Management Committee of China Architecture Association（中國建築協會經營管理委員會）, the Director of Construction Training Office of National Manpower Centre（國家人才交流中心建設培訓辦公室）, the General Secretary of China Engineering Design Professional Committee（中國工程設計專家委員會）, the Chairman of China Construction Guarantee Professional Committee（中國工程擔保專家委員會）, the Chair Professor and PhD Programme Tutor of Tsinghua University. Before establishing Pan-China Construction Group Limited, he had worked for SDPC and the Ministry of Construction, responsible for examining and approving large-scale construction projects as well as researching into and managing industrial policies.

### *Leather Business*

**Mr. LEE Sam Yuen, John**, aged 58, over 30 years of experience in leather trading and distribution. Mr. Lee has been a director of Dah Hwa Leather & Trading Company Limited, a subsidiary of the Company, since its incorporation in 1979. He holds a Bachelor's degree in Management from the Purdue University of the U.S.A. and a honourable Ph. D degree in Business from the Southern California University of the U.S.A. Mr. Lee is responsible for the distribution and trading of leather business of the Group. He joined the Group in 1974.

**Ms. NG Fung Ying**, aged 58, is a Director of a subsidiary of the Group. Ms. Ng has more than 36 years of experience in the leather industry and is responsible for the manufacturing and sales of the handbags division. She joined the Group in 1981. She is the sister of Mr. Ng Hoi Chun.

**Mr. NG Hoi Chun**, aged 47, has more than 23 years of experience in the leatherware industry and is responsible for the operation of the leatherware division. Mr. Ng joined the Group in 1981. He is the brother of Ms. Ng Fung Ying.

# DIRECTORS' REPORT

## PRINCIPAL ACTIVITIES

The Company is primarily an investment holding company and its investment portfolio includes (i) hotel and real estate investments; (ii) property development; and (iii) trading of leather products.

## MAJOR CUSTOMERS AND SUPPLIERS

The information in respect of the group's trading sales and purchases attributable to the major customers and suppliers respectively during the financial year under review is as follows:

| | Percentage of the Group's total trading | |
|---|---|---|
| | **Sales** | **Purchases** |
| The largest customer | 13% | |
| Five largest customers in aggregate | 33% | |
| The largest supplier | | 14% |
| Five largest suppliers in aggregate | | 52% |

At no time during the year under review have the directors, their associates or any shareholder of the company (which to the knowledge of the directors owns more than 5% of the company's share capital) had any interest in these major customers and suppliers.

## FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the past five financial years is set out on page 115 of the financial statements.

## RESULTS AND DIVIDENDS

The results of the Group for the year ended 31 December 2007 are set out in the consolidated income statement on page 28 of this annual report.

The state of the Company's and the Group's affairs as at 31 December 2007 are set out in the balance sheet on pages 29 to 30 of this annual report.

The Board of Directors does not recommend the payment of a dividend for the year ended 31 December 2007.

## PROPERTY, PLANT AND EQUIPMENT

Details of significant changes in the property, plant and equipment of the Group during the review period are set out in Note 16 to the accompanying financial statements.

## SHARE CAPITAL

Movements in share capital of the Group and the Company during the period under review are set out in Note 33 to the financial statements.

## RESERVES

Movements in reserves of the Group and the Company during the review period are set out in Note 33 to the financial statements.

## PURCHASE, SALE AND REDEMPTION OF SHARES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed shares during the year ended 31 December 2007.

## PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Articles of Association or the laws of the Cayman Islands, which would oblige the Company to offer new shares on a pro-rate basis to existing shareholders.

## SUBSIDIARIES AND ASSOCIATES

Particulars of the Company's subsidiaries and associates are set out in Notes 18 and 19 to the financial statements.

## BANK LOANS AND OTHER BORROWINGS

Particulars of bank borrowings as at 31 December 2007 are set out in Note 27 to the financial statements.

## RETIREMENT SCHEMES

Details of the retirement benefits scheme of the Group are set out in Note 32 to the financial statements.

## CORPORATE GOVERNANCE

The Company is committed to maintaining a high standard of corporate governance and has complied throughout the review period with the Code of Best Practice as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

Further information on the Company's corporate governance practices is set out on pages 9 to 14 of this annual report.

# DIRECTORS' REPORT

## DIRECTORS AND DIRECTORS' SERVICE CONTRACTS

The directors who held office during the review period and at the date of this report are:

*Executive Directors:*

| | |
|---|---|
| Mr. Law Kar Po, Chairman | |
| Mr. Hoi Man Pak, Vice Chairman | |
| Mr. Choy Wang Kong, Chief Executive Officer | (appointed on 20 April 2007) |
| Mr. Gao Feng | (appointed on 14 February 2008) |
| Mr. Yong Wing Tai, William | (appointed on 20 April 2007) |
| Mr. Chiang Kin Tong | (appointed on 20 April 2007) |
| Ms. Law Wing Yee, Wendy | |
| Ms. Lee Siu Yuk, Eliza | |
| Mr. Chiang Pedro, Chairman | (resigned on 20 April 2007) |
| Mr. Wu Ka I, Miguel, Chief Executive Officer | (resigned on 20 April 2007) |
| Mr. Ung Choi Kun | (resigned on 20 April 2007) |

*Non-executive Director:*

Mr. Leonel Alberto Alves

*Independent non-executive Directors*

| | |
|---|---|
| Mr. Lau Wai Ming | |
| Mr. Kwok Hong Yee, Jesse | |
| Mr. Li Kam Fai, Dominic | (appointed on 20 August 2007) |
| Mr. Wong King Lam, Joseph | (resigned on 20 August 2007) |

In accordance with the provisions of the Company's Articles of Association, Mr. Law Kar Po, Ms. Lee Siu Yuk, Eliza, Mr. Lau Wai Ming and Mr. Kwok Hong Yee, Jesse shall retire from the Board at the forthcoming Annual General Meeting of the Company and, being eligible, offer themselves for re-election.

Mr. Gao Feng and Mr. Li Kam Fai, Dominic were appointed as the Directors of the Company during the year. They will hold office until the forthcoming Annual General Meeting of the Company and will be eligible for re-election in accordance with the articles of association of the Company.

The term of office of each non-executive director is the period up to his retirement by rotation in accordance with the Company's Articles of Association.

## DIRECTORS' SERVICE CONTRACTS

None of the Directors had any existing or propose service contract with the Company or any member of the Group which is not expiring or terminable by the Group within one year without payment of compensation (other than statutory compensation).

## DIRECTORS' INTEREST IN SECURITIES

As at the 31 December 2007, the interests and short positions of the Directors and chief executive of the Company in the Shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which (a) were required to be notified to the Company and The Stock Exchange of Hong Kong Limited ("Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO), to be entered in the register referred to therein; or (b) were required, pursuant to Section 352 of SFO, to be recorded in the register referred to therein; or (c) were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Listing Rules, to be notified to the Company and the Stock Exchange were as follows:

### *(A) Long position in the ordinary Shares of HK$0.05 each ("Shares") of the Company*

| **Name of Director** | **Capacity** | **Number of Shares** | **% to the issued share capital of the Company** |
|---|---|---|---|
| Mr. Law Kar Po | Beneficial owner | 409,600,000 | 11.50 |
| Mr. Choy Wang Kong | Beneficial owner | 189,823,440 | 5.33 |
| Mr. Hoi Man Pak | Beneficial owner | 132,466,260 | 3.72 |
| | Interest of spouse *(Note 1)* | 136,000 | 0.01 |
| Mr. Yong Wing Tai, William | Interest of spouse *(Note 2)* | 700,000 | 0.02 |

*Notes:*

(1) These Shares are held by Ms. Wong Sao Lai, spouse of Mr. Hoi Man Pak.

(2) These Shares are held by Ms. Io Choi Leng, spouse of Mr. Yong Wing Tai, William.

### (B) *Long position in the underlying Shares*

*(i) Long position in the listed warrants ("Warrant 2009") of the Company*

| Name of Director | Capacity | Number of underlying Shares (in respect of the Warrant 2009) held | % to the issued share capital of the Company |
|---|---|---|---|
| Mr. Law Kar Po | Beneficial owner | 37,286,288 | 1.05 |
| Mr. Hoi Man Pak | Interest of spouse *(Note 1)* | 14,144 | 0.01 |
| Mr. Choy Wang Kong | Beneficial owner | 6,600,821 | 0.19 |
| Mr. Yong Wing Tai, William | Beneficial owner | 100,000 | 0.01 |
| | Interest of spouse *(Note 2)* | 72,800 | 0.01 |

*Notes:*

(1) These underlying Shares are held by Ms. Wong Sao Lai, spouse of Mr. Hoi Man Pak.

(2) These underlying Shares are held by Ms. Io Choi Leng, spouse of Mr. Yong Wing Tai, William.

Warrant 2009 entitle the holders to subscribe for new Shares at the subscription price of HK$0.25 per Share (subject to adjustment) until 6 June 2009.

*(ii) Long position in the unlisted 2.5% fixed interest convertible redeemable notes ("CNs") of the Company*

| Name of Director | Capacity | Amount of CNs HK$ | Number of underlying Shares (%) to the issued share capital of the Company |
|---|---|---|---|
| Mr. Chiang Kin Tong | Beneficial owner | 23,709,703 | 160,200,696 (4.50) |

Holders of the CNs are entitled to elect to convert the CNs into Shares at the conversion price of HK$0.148 per Share (subject to adjustment) until 27 April 2011.

*(iii) Long position in the unlisted 2.5% fixed interest convertible redeemable bonds ("CBs") of the Company*

| Name of Director | Capacity | Amount of CBs HK$ | Number of underlying Shares and (%) to the issued share capital of the Company |
|---|---|---|---|
| Mr. Law Kar Po | Beneficial owner | 65,000,000 | 216,666,666 (6.08) |

Holders of the CBs are entitled to elect to convert the CBs into Shares at the conversion price of HK$0.30 per Share (subject to adjustment) until 23 August 2012.

Save as disclosed above, as at 31 December 2007, none of the Directors or chief executive of the Company had any interest or short position in the Shares, underlying Shares or debentures of the Company or any of its associate corporation (within the meaning of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Division 7 and 8 of Part XV of the SFO (including any interests and short positions which they were taken or deemed to have under such provisions of the SFO) or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listing Companies set out in Appendix 10 to the Listing Rules, to be notified to the Company and the Stock Exchange.

## SUBSTANTIAL SHAREHOLDERS

As at 31 December 2007, so far as is known to the Directors or chief executive of the Company, the following persons (other than the Directors or chief executive of the Company) had an interest or short position in the Shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO as recorded in the register required to be kept by the Company under Section 336 of the SFO:

### *(a) Long position in the Shares*

| Name of shareholder | Capacity | Number of Shares | % to the issued share capital of the Company |
|---|---|---|---|
| Mr. Chiang Pedro | Beneficial owner *(Note)* | 153,640,520 | 4.31 |
| | Interest of spouse *(Note)* | 30,774,000 | 0.86 |
| Ms. Leong Lai Heng | Beneficial owner *(Note)* | 30,774,000 | 0.86 |
| | Interest of spouse *(Note)* | 153,640,520 | 4.31 |
| Ms. Wang Qi | Beneficial owner | 180,094,202 | 5.05 |

*Note:*

Mr. Chiang Pedro is the spouse of Ms. Leong Lai Heng and each of them is deemed to be interested in Shares held by the other.

*(b) Long position in the underlying Shares*

| Name of shareholder | Capacity | Number of Shares | % to the issued share capital of the Company |
|---|---|---|---|
| Mr. Chiang Pedro | Beneficial owner | 15,978,614 | 0.45 |
| Ms. Leong Lai Heng | Interest of spouse *(Note)* | 15,978,614 | 0.45 |

*Note:*

These underlying Shares are Warrant 2009. These underlying Shares are held by Mr. Chiang Pedro, spouse of Ms. Leong Lai Heng.

Save as disclosed above, as at 31 December 2007, no person (other than Directors or chief executive of the Company) had an interest or a short position in the Shares and underlying Shares as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO.

## DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the Directors and the senior management of the Group are set out on pages 15 to 17 of this annual report.

## DIRECTORS' INTEREST IN CONTRACTS

Except for the related party transactions as disclosed in the accompanying financial statements, no other contracts of significance to which the Company, its holding company or subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the review period under review or at any time during the period under review.

## MANAGEMENT CONTRACTS

No contract concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year under review.

## POST BALANCE SHEET EVENTS

Details of the significant post balance sheet events of the Group are set out in note 42 to the financial statements.

## AUDIT COMMITTEE

The audit committee of the Company ("Audit Committee") presently comprises three independent non-executive Directors. The Audit Committee has reviewed with the management and the Company's external auditors the accounting principles and practices adopted by the Group and discussed auditing, internal control and financial reporting process including the review of the financial statements for the year ended 31 December 2007.

## PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors as at the latest practicable date prior to issue of this report, the Company has maintained the prescribed amount of public float during the review period and up to the date of this report as required under the Listing Rules.

## DONATIONS

No charitable and other donations were made by the group during the year under review (2006: HK$211,000).

## AUDITORS

The accompanying financial statements were audited by Messrs CCIF CPA Limited. A resolution for their re-appointment as the Company's auditors for the ensuring year is to be proposed at the forthcoming annual general meeting of the Company.

On behalf of the Board of Directors

**Law Kar Po**
*Chairman*

Hong Kong, 28 April 2008

# INDEPENDENT AUDITOR'S REPORT

CCIF
CCIF CPA LIMITED
20/F Sunning Plaza
10 Hysan Avenue
Causeway Bay Hong Kong

**INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF**
**CHINA INFRASTRUCTURE INVESTMENT LIMITED**
**(FORMERLY KNOWN AS HONESTY TREASURE INTERNATIONAL HOLDINGS LIMITED)**
*(Incorporated in the Cayman Islands with limited liability)*

We have audited the consolidated financial statements of China Infrastructure Investment Limited (the "Company") set out on pages 28 to 114, which comprise the consolidated and company balance sheets as at 31 December 2007, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

## DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation and the true and fair presentation of these financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

## AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audit. This report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2007 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

**CCIF CPA Limited**
*Certified Public Accountants*
Hong Kong, 28 April 2008

**Betty P.C. Tse**
Practising Certificate Number P03024

# CONSOLIDATED INCOME STATEMENT

*For the year ended 31 December 2007*
*(Expressed in Hong Kong dollars)*

| | Note | 2007 HK$'000 | 2006 HK$'000 |
|---|---|---|---|
| **Continuing operations** | | | |
| Turnover | 4 & 13 | **96,119** | 72,873 |
| Direct costs | | **(72,987)** | (51,290) |
| | | **23,132** | 21,583 |
| Other revenue | 5 | **4,239** | 2,260 |
| Other net income | 5 | **3,772** | 438 |
| Release of negative goodwill | 35(a) | **5,257** | – |
| Valuation gains on investment properties | 15 | **9,633** | – |
| Selling and distribution costs | | **(5,708)** | (3,312) |
| General and administrative expenses | | **(40,770)** | (35,169) |
| Loss from operations | | **(445)** | (14,200) |
| Finance costs | 6(a) | **(22,785)** | (6,528) |
| Share of profits less losses of associates | 7 | **123,799** | 95,465 |
| Profit before taxation | 6 | **100,569** | 74,737 |
| Income tax | 10(a) | **(9)** | – |
| Profit after income tax from continuing operations | | **100,560** | 74,737 |
| **Discontinued operations** | | | |
| Loss from discontinued operations | 11 | **–** | (17,437) |
| **Profit for the year** | | **100,560** | 57,300 |
| **Attributable to:** | | | |
| – Equity shareholders of the Company | 12, 33(a) | **101,973** | 57,246 |
| – Minority interests | 33(a) | **(1,413)** | 54 |
| **Profit for the year** | 33(a) | **100,560** | 57,300 |
| **Earnings (loss) per share (HK cents per share)** | | | |
| Basic | | | |
| For continuing and discontinued operations | 14(a) | **HK3.23 cents** | HK2.09 cents |
| For continuing operations | 14(b) | **HK3.23 cents** | HK2.73 cents |
| For discontinued operations | 14(c) | **N/A** | HK(0.64) cents |
| Diluted | | | |
| For continuing and discontinued operations | 14(a) | **HK2.76 cents** | HK1.93 cents |
| For continuing operations | 14(b) | **HK2.76 cents** | HK2.48 cents |
| For discontinued operations | 14(c) | **N/A** | N/A |

The notes on pages 34 to 114 form an integral part of these financial statements.

# CONSOLIDATED BALANCE SHEET

*As at 31 December 2007*
*(Expressed in Hong Kong dollars)*

| | Note | 2007 HK$'000 | 2006 HK$'000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Investment properties | 15 | **68,520** | 61,114 |
| Property, plant and equipment | 16 | **12,775** | 5,956 |
| Properties under development | 17 | **523,905** | 389,267 |
| Interests in associates | 19 | **730,443** | 657,906 |
| | | **1,335,643** | 1,114,243 |
| **Current assets** | | | |
| Trading securities | 20 | **59** | 43 |
| Inventories | 21 | **7,391** | 7,748 |
| Properties held for sale | 22 | **384,243** | 85,662 |
| Trade and other receivables | 23 | **72,119** | 19,014 |
| Cash and cash equivalents | 24 | **102,182** | 35,495 |
| | | **565,994** | 147,962 |
| **Non-current assets held for sale** | 25 | **314,276** | – |
| **Total current assets** | | **880,270** | 147,962 |
| **Current liabilities** | | | |
| Trade and other payables | 26 | **(537,917)** | (154,285) |
| Interest-bearing borrowings, secured | 27 | **(253,375)** | (289,245) |
| Obligations under finance leases | 28 | **–** | (13) |
| | | **(791,292)** | (443,543) |
| **Net current assets/(liabilities)** | | **88,978** | (295,581) |
| **Total assets less current liabilities** | | **1,424,621** | 818,662 |
| **Non-current liabilities** | | | |
| Convertible notes | 29 | **(171,412)** | (77,527) |
| Interest-bearing borrowings, secured | 27 | **(21,400)** | – |
| Provision for long service payments | 30 | **(594)** | (934) |
| Deferred tax liabilities | 31 | **(75,910)** | – |
| | | **(269,316)** | (78,461) |
| **NET ASSETS** | | **1,155,305** | 740,201 |
| **CAPITAL AND RESERVES** | 33(a) | | |
| Share capital | | **178,145** | 141,541 |
| Reserves | | **873,989** | 598,387 |
| **Total equity attributable to equity shareholders of the Company** | | **1,052,134** | 739,928 |
| **Minority interests** | | **103,171** | 273 |
| **TOTAL EQUITY** | | **1,155,305** | 740,201 |

Approved and authorised for issue by the board of directors on 28 April 2008.

**Law Kar Po**
*Director*

**Lee Siu Yuk, Eliza**
*Director*

The notes on pages 34 to 114 form an integral part of these financial statements.

# BALANCE SHEET

*As at 31 December 2007*
*(Expressed in Hong Kong dollars)*

| | Note | **2007** **HK$'000** | 2006 HK$'000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Investments in subsidiaries | *18* | **230,946** | 1 |
| **Current assets** | | | |
| Trade and other receivables | *23* | **644,967** | 634,644 |
| Cash and cash equivalents | *24* | **68,912** | 25,584 |
| | | **713,879** | 660,228 |
| **Current liabilities** | | | |
| Trade and other payables | *26* | **3,683** | 4,625 |
| **Net current assets** | | **710,196** | 655,603 |
| **Non-current liabilities** | | | |
| Convertible notes | *29* | **171,412** | 77,527 |
| **NET ASSETS** | | **769,730** | 578,077 |
| **CAPITAL AND RESERVES** | *33(b)* | | |
| Share capital | | **178,145** | 141,541 |
| Reserves | | **591,585** | 436,536 |
| **TOTAL EQUITY** | | **769,730** | 578,077 |

Approved and authorised for issue by the board of directors on 28 April 2008.

**Law Kar Po**
*Director*

**Lee Siu Yuk, Eliza**
*Director*

The notes on pages 34 to 114 form an integral part of these financial statements.

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

*For the Year ended 31 December 2007*
*(Expressed in Hong Kong dollars)*

| | Attributable to equity shareholders of the Company | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | **Share capital** | **Share premium** | **Capital redemption reserve** | **Convertible notes equity reserve** | **Warrant reserve** | **Exchange reserve** | **Retained earnings/ (Accumulated losses)** | **Total** | **Minority interests** | **Total equity** |
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| At 1 January 2006 | 121,541 | 439,019 | 69 | – | 4,950 | (465) | 42,293 | 607,407 | 397 | 607,804 |
| Issue of shares by a placement | 20,000 | 39,200 | – | – | – | – | – | 59,200 | – | 59,200 |
| Acquisition of a subsidiary | – | – | – | – | – | – | – | – | (178) | (178) |
| Issue of convertible notes | – | – | – | 17,119 | – | – | – | 17,119 | – | 17,119 |
| Share issue expenses | – | (767) | – | – | – | – | – | (767) | – | (767) |
| Exchange differences on translation of financial statements of overseas subsidiaries | – | – | – | – | – | (277) | – | (277) | – | (277) |
| Net profit for the year | – | – | – | – | – | – | 57,246 | 57,246 | 54 | 57,300 |
| Share premium set-off against accumulated losses | – | (63,054) | – | – | – | – | 63,054 | – | – | – |
| At 31 December 2006 | 141,541 | 414,398 | 69 | 17,119 | 4,950 | (742) | 162,593 | 739,928 | 273 | 740,201 |
| At 31 December 2006 and 1 January 2007 | 141,541 | 414,398 | 69 | 17,119 | 4,950 | (742) | 162,593 | 739,928 | 273 | 740,201 |
| Shares issued at a premium on exercise of warrant | 13,211 | 73,417 | – | – | – | – | – | 86,628 | – | 86,628 |
| Shares issued at a premium for acquisition of a subsidiary | 6,467 | 44,623 | – | – | – | – | – | 51,090 | – | 51,090 |
| Acquisition of subsidiaries | – | – | – | – | – | – | – | – | 104,311 | 104,311 |
| Issue of convertible notes | – | – | – | 27,999 | – | – | – | 27,999 | – | 27,999 |
| Shares issued at a premium on conversion of convertible notes | 16,926 | 33,175 | – | (9,415) | – | – | – | 40,686 | – | 40,686 |
| Exchange differences on translation of financial statements of overseas subsidiaries | – | – | – | – | – | 3,830 | – | 3,830 | – | 3,830 |
| Release of warrant reserve on exercise of unlisted warrants | – | 4,950 | – | – | (4,950) | – | – | – | – | – |
| Net profit for the year | – | – | – | – | – | – | 101,973 | 101,973 | (1,413) | 100,560 |
| **At 31 December 2007** | **178,145** | **570,563** | **69** | **35,703** | **–** | **3,088** | **264,566** | **1,052,134** | **103,171** | **1,155,305** |
| **Reserves retained by:** | | | | | | | | | | |
| At 31 December 2007 | | | | | | | | | | |
| – Company and subsidiaries | 178,145 | 570,563 | 69 | 35,703 | – | 3,088 | (46,400) | 741,168 | 103,171 | 844,339 |
| – Associates | – | – | – | – | – | – | 310,966 | 310,966 | – | 310,966 |
| | 178,145 | 570,563 | 69 | 35,703 | – | 3,088 | 264,566 | 1,052,134 | 103,171 | 1,155,305 |
| At 31 December 2006 | | | | | | | | | | |
| – Company and subsidiaries | 141,541 | 414,398 | 69 | 17,119 | 4,950 | (742) | (24,574) | 552,761 | 273 | 553,034 |
| – Associates | – | – | – | – | – | – | 187,167 | 187,167 | – | 187,167 |
| | 141,541 | 414,398 | 69 | 17,119 | 4,950 | (742) | 162,593 | 739,928 | 273 | 740,201 |

The notes on pages 34 to 114 form an integral part of these financial statements.

# CONSOLIDATED CASH FLOW STATEMENT

*For the Year ended 31 December 2007*
*(Expressed in Hong Kong dollars)*

| | Note | 2007<br>HK$'000 | 2006<br>HK$'000 |
|---|---|---|---|
| **Operating activities** | | | |
| Profit/(loss) before taxation | | | |
| From continuing operations | | **100,569** | 74,737 |
| From discontinued operations | | **–** | (17,437) |
| | | **100,569** | 57,300 |
| Adjustments for: | | | |
| Depreciation | 6(b) | **2,342** | 2,686 |
| Impairment loss for bad and doubtful debts | 6(b) | **583** | 582 |
| Negative goodwill | 35(a) | **(5,257)** | – |
| Loss on sale of property, plant and equipment | 6(b) | **9** | 2,301 |
| Net realised and unrealised (gain)/loss on trading securities | 5 | **(16)** | 7 |
| Interest income | 5 | **(3,925)** | (1,198) |
| Finance costs | 6(a) | **22,785** | 6,544 |
| Share of profits less losses of associates | | **(123,799)** | (95,555) |
| Loss on disposal of subsidiaries | 35(b) | **–** | 4,820 |
| Reversal of provision for long service payments | 5 | **(340)** | – |
| Net valuation gain on investment properties | 15 | **(9,633)** | – |
| Gain on disposal of investment properties | 5 | **(444)** | – |
| Gain on disposal of properties held for sale | | **(2,908)** | – |
| Reversal of impairment loss for bad and doubtful debt | 5 | **(107)** | – |
| Reversal of rent payable | 5 | **(1,806)** | – |
| **Operating loss before changes in working capital** | | **(21,947)** | (22,513) |
| Decrease in inventories | | **357** | 4,587 |
| Increase in properties held for sale | | **(48,774)** | (85,662) |
| Increase in trade and other receivables | | **(45,157)** | (1,081) |
| Decrease in trade and other payables | | **(64,388)** | (4,309) |
| Decrease in bills payable | | **–** | (353) |
| **Net cash used in operating activities** | | **(179,909)** | (109,331) |
| **Investing activities** | | | |
| Acquisition of subsidiaries, net of cash (outflow)/acquired | 35(a) | **(96,520)** | 11,456 |
| Interest received | 5 | **3,925** | 1,198 |
| Dividend received from associates | | **51,262** | 43,262 |
| Increase in pledged deposits | 24 | **–** | (100) |
| Net cash inflow upon disposal of interests in subsidiaries | 35(b) | **–** | 1,071 |
| Payment for the purchase of investment properties | | **–** | (61,114) |
| Payment for the purchase of properties, plant and equipment | | **(1,071)** | (930) |
| Payment for development costs of properties under development | | **(95,431)** | (12,379) |
| Proceeds from sale of property, plant and equipment | | **–** | 697 |
| Proceeds from sale of trading securities | | **–** | 16 |
| Proceeds from sale of investment property | | **9,091** | – |
| **Net cash used in investing activities** | | **(128,744)** | (16,823) |

# CONSOLIDATED CASH FLOW STATEMENT

*For the Year ended 31 December 2007*
*(Expressed in Hong Kong dollars)*

| | Note | 2007 HK$'000 | 2006 HK$'000 |
|---|---|---|---|
| **Financing activities** | | | |
| Capital element of finance lease rentals paid | | **(13)** | (253) |
| Loan payable | | **–** | 35 |
| Repayment of bank loans | | **(35,870)** | (15,000) |
| Proceeds from issue of new shares on conversion of convertible notes | | **40,686** | – |
| Net proceeds from the issue of new shares on exercise of warrants | | **86,628** | 58,433 |
| Proceeds from new bank loans | | **21,400** | 99,457 |
| Increase in amount due to minority interests | | **–** | 1,574 |
| Decrease in amount due to related companies | | **161,036** | (913) |
| Increase in due to an ex-director | | **–** | 817 |
| Net proceeds from issue of convertible notes | | **121,884** | – |
| Interest element of finance lease rentals paid | | **(1)** | (23) |
| Other borrowing costs paid | | **(22,784)** | (1,732) |
| **Net cash generated from financing activities** | | **372,966** | 142,395 |
| **Net increase in cash and cash equivalents** | | **64,313** | 16,241 |
| **Cash and cash equivalents at 1 January** | 24 | **35,395** | 19,517 |
| **Effect of foreign rate changes** | | **2,374** | (363) |
| **Cash and cash equivalents at 31 December** | 24 | **102,082** | 35,395 |

The notes on pages 34 to 114 form an integral part of these financial statements.

# NOTES TO THE FINANCIAL STATEMENTS

*For the year ended 31 December 2007*

## 1. GENERAL INFORMATION

The Company was incorporated in the Cayman Islands on 16 June 1992 as an exempted company with limited liability under the Companies Law, Cap 22 (Law 2 of 1961, as consolidated and revised) of the Cayman Islands. The shares of the Company are listed on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”).

Pursuant to a special resolution duly approved by the shareholders in the extraordinary meeting held on 11 January 2008, the Company had changed its name from “Honesty Treasure International Holdings Limited 信寶國際控股有限公司” to “China Infrastructure Investment Limited 中國基建投資有限公司” to reflect the change in the business focus of the Group.

The Company (with its subsidiaries, collectively referred to as the “Group”) is an investment holding company. Its subsidiaries are principally engaged in property development, trading of leatherware products and real estate investment. The Group was also engaged in the retailing, and healthcare and medical related businesses, which were discontinued in the last year (see note 11).

The consolidated finance statements are presented in Hong Kong dollars, which is the same as the functional currency of the Company.

## 2. SIGNIFICANT ACCOUNTING POLICIES

### (a) Statement of compliance

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (“HKFRSs”), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (“HKASs”) and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. A summary of the significant accounting policies adopted by the Group is set out below.

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Group and the Company. Note 3 provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these financial statements.

## 2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (b) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 31 December 2007 comprise the Company and its subsidiaries and the Group's interest in associates.

The measurement basis used in the preparation of the financial statements is the historical cost basis except that the financial instruments are stated at their fair value as explained in the accounting polices set out below.

Non-current assets held for sale are stated at the lower of carrying amount and fair value less costs to sell (note 2 (z)(i)).

The preparation of financial statements in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of HKFRSs that have a significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 43.

## 2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (c) Subsidiaries and minority interests

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from their activities. In assessing control, potential voting rights that presently are exercisable are taken into account.

An investment in a subsidiary is consolidated into the consolidated financial statement, from the date that control commences until the date that control ceases. Intra-group balances and transactions and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

Minority interests represent the portion of the net assets of subsidiaries attributable to interests that are not owned by the Company, whether directly or indirectly through subsidiaries, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. Minority interests are presented in the consolidated balance sheet within equity, separately from equity attributable to the equity shareholders of the Company. Minority interests in the results of the Group are presented on the face of the consolidated income statement as an allocation of the total profit or loss for the year between minority interests and the equity shareholders of the Company.

Where losses applicable to the minority exceed the minority's interests in the equity of a subsidiary, the excess, and any further losses attributable to the minority, are charged against the Group's interest except to the extent that the minority has a binding obligation to, and is able to, make additional investment to cover the losses. If the subsidiary subsequently report profits, the Group's interest is allocated all such profits until the minority's share of losses previously absorbed by the Group has been recovered.

Loans from holders of minority interests and other contractual obligations towards these holders are presented as financial liabilities in the consolidated balance sheet depending on the nature of the liability.

In the Company's balance sheet, an investment in a subsidiary is stated at cost less any impairment losses (see note 2(l)).

## 2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (d) Associates

An associate is an entity in which the Group or Company has significant influence, but not control or joint control, over its management, including participation in the financial and operating policy decisions.

An investment in an associate is accounted for in the consolidated financial statements under the equity method and is initially recorded at cost and adjusted thereafter for the post acquisition change in the Group's share of the associate's net assets. The consolidated income statement includes the Group's share of post acquisition, post-tax results of the associates for the year, including any impairment loss on goodwill relating to the investment in associates recognised for the year (see notes 2(e) and (l)).

When the Group's share of losses exceeds its interest in the associate, the Group's interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate. For this purpose, the Group's interest in the associate is the carrying amount of the investment under the equity method together with the Group's long-term interests that in substance form part of the Group's net investment in the associate.

Unrealised profits and losses resulting from transactions between the Group and its associate are eliminated to the extent of the Group's interest in the associate, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in income statement.

In the Company's balance sheet, investment in a subsidiary is stated at cost less impairment losses (see note 2(l)).

### (e) Goodwill

Goodwill represents the excess of the cost of a business combination or an investment in an associate over the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities.

Goodwill is stated at cost less accumulated impairment losses. Goodwill is allocated to cash-generating units and is tested annually for impairment (see note 2(l)). In respect of associates, the carrying amount of goodwill is included in the carrying amount of the interest in the associate.

Any excess of the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over the cost of a business combination or an investment in an associate is recognised immediately in profit or loss.

On disposal of a cash generating unit, an associate during the year, any attributable amount of purchased goodwill is included in the calculation of the profit or loss on disposal.

## 2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (f) Other investments in debt and equity securities

The Group's and the Company's policies for investments in debt and equity securities, other than investments in subsidiaries and associates, are as follows:

Investments in debt and equity securities are initially stated at cost, which is their transaction price unless fair value can be more reliably estimated using valuation techniques whose variables include only data from observable markets. Cost includes attributable transaction costs, except where indicated otherwise below. These investments are subsequently accounted for as follows, depending on their classification:

Investments in securities held for trading are classified as current assets. Any attributable transaction costs are recognised in profit or loss as incurred. At each balance sheet date the fair value is remeasured, with any resultant gain or loss being recognised in profit or loss. The net gain or loss recognised in profit or loss does not include any dividends or interest earned on these investments as these are recognised in accordance with the policies set out in note 2(w)(iii) and (iv).

Dated debt securities that the Group and/or the Company have the positive ability and intention to hold to maturity are classified as held-to-maturity securities. Held-to-maturity securities are stated in the balance sheet at amortised cost less impairment losses (see note 2(l)).

Investments in equity securities that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are recognised in the balance sheet at cost less impairment losses (see note 2(l)).

Investments in securities which do not fall into any of the above categories are classified as available-for-sale securities. At each balance sheet date the fair value is remeasured, with any resultant gain or loss being recognised directly in equity, except foreign exchange gains and losses in respect of monetary items such as debt securities which are recognised directly in profit or loss. Dividend income from these investments is recognised in profit or loss in accordance with the policy set out in note 2(w)(iii) and, where, these investments are interest-bearing, interest calculated using the effective interest method is recognised in profit or loss in accordance with the policy set out in note 2(w)(iv). When these investments are derecognised or impaired (see note 2(l)), the cumulative gain or loss previously recognised directly in equity is recognised in income statement.

Investments are recognised/derecognised on the date the Group commits to purchase/sell the investments or they expire.

### (g) Derivative financial instruments

Derivative financial instruments are recognised initially at fair value. At each balance sheet date the fair value is remeasured. The gain or loss on remeasurement to fair value is charged immediately to income statement, except where the derivatives qualify for cash flow are effective hedge over accounting or hedge the net investment in a foreign operation, in which case recognition of any resultant gain or loss depends on the nature of the item being hedged.

## 2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (h) Investment property

Investment properties are land and/or buildings which are owned or held under a leasehold interest (see note 2(k)) to earn rental income and/or for capital appreciation.

Investment properties are stated in the balance sheet at fair value. Any gain or loss arising from a change in fair value or from the retirement or disposal of an investment property is recognised in profit or loss. Rental income from investment properties is accounted for as described in note 2(w)(ii).

When the Group holds a property interest under an operating lease to earn rental income and/or for capital appreciation, the interest is classified and accounted for as an investment property on a property-by-property basis. Any such property interest which has been classified as an investment property is accounted for as if it is held under a finance lease (see note 2(k)), and the same accounting policies are applied to that interest as are applied to other investment properties leased under finance leases. Lease payments are accounted for as described in note 2(k).

### (i) Properties under development

Properties under development are stated at cost, less any impairment loss (see note 2(l)). Cost comprises land costs, direct cost of construction, borrowing costs and other direct cost attributable to the development.

### (j) Other property, plant and equipment

Property, plant and equipment are stated in the balance sheet at cost less accumulated depreciation and impairment losses (see note 2(l)).

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

Depreciation is calculated to write off the cost of items of property, plant and equipment, less their estimated residual value, if any, using the straight-line method over their estimated useful lives. The principal annual rates of depreciation are as follows:

| | |
|---|---|
| Furniture and fixtures | 10-20% |
| Office equipment | 10-20% |
| Plant and machinery | 5-20% |
| Motor vehicles | 10-20% |
| Leasehold improvements | Over the lease term |
| Buildings | 2-33$^{1}/_{3}$% or over the lease term, if shorter |

Where parts of an item of property, plant and equipment have different useful life, the cost of the item is allocated on a reasonable basis between the parts and each part is depreciated separately. Both the useful life of an asset and its residual value, if any, are reviewed annually.

## 2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (k) Leased assets

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Group determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

***(i) Classification of assets leased to the Group***

Assets that are held by Group under leases which transfer to the Group substantially all the risks and rewards of ownership are classified as being held under finance leases. Leases which do not transfer substantially all the risks and rewards of ownership to the Group are classified as operating leases, except for land held for own use under an operating lease, the cost of which cannot be measured separately from the cost of a building situated thereon at the inception of the lease, is accounted for as being held under a finance lease, unless the building is also clearly held under an operating lease. For these purposes, the inception of the lease is the time that the lease was first entered into by the Group, or taken over from the previous lessee, or at the date of construction of those buildings, if later.

***(ii) Assets acquired under finance leases***

Where the Group acquires the use of assets under finance leases, the amounts representing the fair value of the leased asset, or, if lower, the present value of the minimum lease payments, of such assets are included in fixed assets and the corresponding liabilities, net of finance charges, are recorded as obligations under finance leases. Depreciation is provided at rates which write off the cost of the assets over the term of the relevant lease or, where it is likely the Group will obtain ownership of the asset, the life of the asset, as set out in note 2(j). Impairment losses are accounted for in accordance with the accounting policy as set out in note 2(l). Finance charges implicit in the lease payments are charged to income statement over the period of the leases so as to produce an approximately constant periodic rate of charge on the remaining balance of the obligations for each accounting period. Contingent rentals are charged to income statement in the accounting period in which they are incurred.

***(iii) Operating lease charges***

Where the Group has the use of assets held under operating leases, payments made under the leases are charged to income statement in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in income statement as an integral part of the aggregate net lease payments made. Contingent rentals are charged to income statement in the accounting period in which they are incurred.

The cost of acquiring land held under an operating lease is amortised on a straight-line basis over the period of the lease term, except where the property is classified as an investment property (see note 2(h)), as a property under development (see note 2(i)), as a properties held for sale (see note 2(n)).

## 2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (l) Impairment of assets

#### *(i) Impairment of investments in debt and equity securities and other receivables*

Investments in debt and equity securities (other than investments in subsidiaries and associates: (see note 2(l)(ii)) and other current and non-current receivables that are stated at cost or amortised cost or are classified as available-for-sale securities are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. Objective evidence of impairment includes observable data that comes to the attention of the Group about one or more of the following loss events:

– significant financial difficulty of the debtor;

– a breach of contract, such as a default or delinquency in interest or principal payments;

– it becoming probable that the debtor will enter bankruptcy or other financial reorganisation;

– significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; and

– a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

If any such evidence exists, any impairment loss is determined and recognised as follows:

– For unquoted equity securities carried at cost, the impairment loss is measured as the difference between the carrying amount of the financial asset and the estimated future cash flows, discounted at the current market rate of return for a similar financial asset where the effect of discounting is material. Impairment losses on equity securities are not reversed.

– For trade and other current receivables and other financial assets carried at amortised cost, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material. This assessment is made collectively where financial assets carried at amortised cost share similar risk characteristics, such as similar past due status, and have not been individually assessed as impaired. Future cash flows for financial assets which are assessed for impairment collectively are based on historical loss experience for assets with credit risk characteristics similar to the collective group.

  If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through income statement. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

## 2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (l) Impairment of assets *(Continued)*

#### *(i) Impairment of investments in debt and equity securities and other receivables* (Continued)

– For available-for-sale securities, the cumulative loss that has been recognised directly in equity is removed from equity and is recognised in profit or loss. The amount of the cumulative loss that is recognised in profit or loss is the difference between the acquisition cost (net of any principal repayment and amortisation) and current fair value, less any impairment loss on the asset previously recognised in profit or loss.

Impairment losses recognised in profit or loss in respect of available-for-sale equity securities are not reversed through profit or loss. Any subsequent increase in the fair value of such assets is recognised directly in equity.

Impairment losses in respect of available-for-sale debt securities are reversed if the subsequent increase in fair value can be objectively related to an event occurring after the impairment loss was recognised. Reversals of impairment losses in such circumstances are recognised in profit or loss.

Impairment losses are written off against the corresponding assets directly, except for impairment losses recognised in respect of trade debtors and bills receivable included within trade and other receivables, whose recovery is considered doubtful but not remote. In this case, the impairment losses for doubtful debts are recorded using an allowance account. When the Group is satisfied that recovery is remote, the amount considered irrecoverable is written off against trade debtors and bills receivable directly and any amounts held in the allowance account relating to that debt are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in profit or loss.

#### *(ii) Impairment of other assets*

Internal and external sources of information are reviewed at each balance sheet date to identify indications that the following assets may be impaired or, except in the case of goodwill, an impairment loss previously recognised no longer exists or may have decreased:

– property, plant and equipment;

– properties under development;

investments in subsidiaries and associates (except for those classified as held for sale (or included in a disposal group that is classified as held for sale)); and

– goodwill.

## 2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (l) Impairment of assets *(Continued)*

#### *(ii) Impairment of other assets* (Continued)

If any such indication exists, the asset's recoverable amount is estimated. In addition, for goodwill, intangible assets that are not yet available for use and intangible assets that have indefinite useful lives, the recoverable amount is estimated annually whether or not there is any indication of impairment.

– *Calculation of recoverable amount*

The recoverable amount of an asset is the greater of its net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e., a cash-generating unit).

– *Recognition of impairment losses*

An impairment loss is recognised in income statement whenever the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs to sell, or value in use, if determinable.

– *Reversals of impairment losses*

In respect of assets other than goodwill, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is not reversed.

A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to income statement in the year in which the reversals are recognised.

## 2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (l) Impairment of assets *(Continued)*

#### *(iii) Interim financial reporting and impairment*

Under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, the Group is required to prepare an interim financial report in compliance with HKAS 34, *Interim financial reporting*, in respect of the first six months of the financial year. At the end of the interim period, the Group applies the same impairment testing, recognition and reversal criteria as it would at the end of the financial year (see notes 2(l)(i) and (ii)).

Impairment losses recognised in an interim period in respect of goodwill, available-for-sale equity securities and unquoted equity securities carried at cost are not reversed in a subsequent period. This is the case even if no loss, or a smaller loss, would have been recognised had the impairment been assessed at the end of the financial year to which the interim period relates.

### (m) Inventories

Inventories are carried at the lower of cost and net realisable value.

Cost is calculated on the first-in first-out basis and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

### (n) Properties held for sale

Properties held for sale are classified under current assets and stated at lower cost and net realisable value. Net realisable value represents the estimated selling price as determined by reference to management estimates based on prevailing market conditions, less costs to be incurred in selling the property.

## 2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (o) Trade and other receivables

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost less allowance for impairment of doubtful debts (see note 2(l)), except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less allowance for impairment of doubtful debts.

### (p) Convertible notes

Convertible notes that can be converted to equity share capital at the option of the holder, where the number of shares that would be issued on conversion and the value of the consideration that would be received at that time do not vary, are accounted for as compound financial instruments which contain both a liability component and an equity component.

At initial recognition the liability component of the convertible notes is measured as the present value of the future interest and principal payments, discounted at the market rate of interest applicable at the time of initial recognition to similar liabilities that do not have a conversion option. Any excess of proceeds over the amount initially recognised as the liability component is recognised as the equity component. Transaction costs that relate to the issue of a compound financial instrument are allocated to the liability and equity components in proportion to the allocation of proceeds.

The liability component is subsequently carried at amortised cost. The interest expense recognised in profit or loss on the liability component is calculated using the effective interest method. The equity component is recognised in the capital reserve until either the note is converted or redeemed.

If the note is converted, the convertible notes reserve, together with the carrying amount of the liability component at the time of conversion, is transferred to share capital and share premium as consideration for the shares issued. If the note is redeemed, the capital reserve is released directly to retained earnings.

### (q) Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between the amount initially recognised and redemption value being recognised in profit or loss over the period of the borrowings, together with any interest and fees payable, using the effective interest method.

### (r) Trade and other payables

Trade and other payables are initially recognised at fair value. Except for financial guarantee liabilities measured in accordance with note 2(v)(i), trade and other payables are subsequently stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

## 2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (s) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks, and short term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents for the purpose of the consolidated cash flow statement.

### (t) Employee benefits

***(i) Short-term employee benefits and contributions to defined contribution retirement plans***

Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

***(ii) Termination benefits***

Termination benefits are recognised when, and only when the Group demonstrably commits itself to terminate employment or to provide benefits as a result of voluntary redundancy by having a detailed formal plan which is without realistic possibility of withdrawal.

### (u) Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to items recognised directly in equity, in which case they are recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

## 2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (u) Income tax *(Continued)*

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference, or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at each balance sheet date and is reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profit will be available.

Additional income taxes that arise from the distribution of dividends are recognised when the liability to pay the related dividends is recognised.

## 2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (u) Income tax *(Continued)*

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the Company or the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

- in the case of current tax assets and liabilities, the Company or the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously, or
- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:
  - the same taxable entity, or
  - different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

### (v) Financial guarantees issued, provisions and contingent liabilities

#### *(i) Financial guarantees issued*

Financial guarantees are contracts that require the issuer (i.e. the guarantor) to make specified payments to reimburse the beneficiary of the guarantee (the "holder") for a loss the holder incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

Where the Group issues a financial guarantee, the fair value of the guarantee (being the transaction price, unless the fair value can otherwise be reliably estimated) is initially recognised as deferred income within trade and other payables. Where consideration is received or receivable for the issurance of the guarantee, the consideration is recognised in accordance with the Group's policies applicable to that category of asset. Where no such consideration is received or receivable, an immediate expense is recognized in profit or loss on initial recognition of any deferred income.

## 2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (v) Financial guarantees issued, provisions and contingent liabilities *(Continued)*

***(i) Financial guarantees issued*** *(Continued)*

The amount of the guarantee initially recognized as deferred income is amortised in profit or loss over the term of the guarantee as income from financial guarantees issued. In addition, provisions are recognized in accordance with note 2(v)(iii) if and when (i) it becomes probable that the holder of the guarantee will call upon the Group under the guarantee, and (ii) the amount of that claim on the Group is expected to exceed the amount currently carried in trade and other payables in respect of that guarantee, that is, the amount initially recognised, less accumulated amortisation.

***(ii) Contingent liabilities acquired in business combinations***

Contingent liabilities acquired as part of a business combination are initially recognised at fair value, provided the fair value can be reliably measured. After their initial recognition at fair value, such contingent liabilities are recognised at the higher of the amount initially recognised, less, where appropriate, accumulated amortisation, and the amount that would be determined in accordance with note 2(v)(iii). Contingent liabilities that cannot be reliably fair valued are disclosed in accordance with note 2(v)(iii).

***(iii) Other provisions and contingent liabilities***

Provisions are recognised for other liabilities of uncertain timing or amount when the Group or the Company has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditures expected to settle the obligation. Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events, are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

## 2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (w) Revenue recognition

Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in income statement as follows:

***(i) Sale of goods***

Revenue is recognised when goods are delivered which is taken to be the point in time when the customer has accepted the goods and the related risks and rewards of ownership. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

***(ii) Rental income from operating leases***

Rental income receivable under operating leases is recognised in profit or loss in equal instalments over the periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the use of the leased asset. Lease incentives granted are recognised in profit or loss as an integral part of the aggregate net lease payments receivable. Contingent rentals are recognised as income in the accounting period in which they are earned.

***(iii) Dividends***

Dividend income from unlisted investments is recognised when the shareholder's right to receive payment is established.

Dividend income from listed investments is recognised when the share price of the investment goes ex-dividend.

***(iv) Interest income***

Interest income is recognised as it accrues using the effective interest method.

### (x) Translation of foreign currencies

Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the balance sheet date. Exchange gains and losses are recognised in profit or loss.

## 2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (x) Translation of foreign currencies *(Continued)*

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was determined.

The results of foreign operations are translated into Hong Kong dollars at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Balance sheet items, including goodwill arising on consolidation of foreign operations on or after 1 January 2005, are translated into Hong Kong dollars at the foreign exchange rates ruling at the balance sheet date. The resulting exchange differences are recognised directly in a separate component of equity. Goodwill arising on consolidation of a foreign operation acquired before 1 January 2005 is translated at the foreign exchange rate that applied at the date of acquisition of the foreign operation.

On the disposal of a foreign operation, the cumulative amount of the exchange differences recognised in equity which relate to that foreign operation is included in the calculation of the profit or loss on disposal.

### (y) Borrowing costs

Borrowing costs are expensed in profit or loss in the period in which they are incurred, except to the extent that they are capitalized as being directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale.

The capitalization of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or complete.

## 2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (z) Non-current assets held for sale and discontinued operations

#### *(i) Non-current assets held for sale*

A non-current asset is classified as held for sale if it is highly probable that its carrying amount will be recovered through a sale transaction rather than through continuing use and the asset is available for sale in its present condition.

Immediately before classification as held for sale, the measurement of the non-current assets is brought up-to-date in accordance with the accounting policies before the classification. Then, on initial classification as held for sale and until disposal, the non-current assets (except for certain assets as explained below) are recognised at the lower of their carrying amount and fair value less costs to sell. The principal exceptions to this measurement policy so far as the financial statements of the group and the company are concerned are deferred tax assets, assets arising from employee benefits, financial assets (other than investments in subsidiaries, associates and joint ventures) and investment properties. These assets, even if held for sale, would continue to be measured in accordance with the policies set out elsewhere in note 2.

Impairment losses on arising initial classification as held for sale and on subsequent remeasurement while held for sale are recognised in profit or loss. As long as a non-current asset is classified as held for sale, or is included in a disposal group that is classified as held for sale, the non-current asset is not depreciated or amortised.

#### *(ii) Discontinued operations*

A discontinued operation is a component of the group's business, the operations and cash flows of which can be clearly distinguished from the rest of the group and which represents a separate major line of business or geographical area of operations, or is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations, or is a subsidiary acquired exclusively with a view to resale.

Classification as a discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held for sale (see 2(n) above), if earlier. It also occurs when the operation is abandoned.

Where an operation is classified as discontinued, a single amount is presented on the face of the income statement which comprises:

– the post-tax profit or loss of the discontinued operation; and

– the post-tax gain or loss recognised on the measurement to fair value less costs to sell, or on the disposal, of the assets or disposal group(s) constituting the discontinued operation.

## 2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (aa) Related parties

For the purposes of these financial statements, a party is considered to be related to the Group if:

(i) the party has the ability, directly or indirectly through one or more intermediaries, to control the Group or exercise significant influence over the Group in making financial and operating policy decisions, or has joint control over the Group;

(ii) the Group and the party are subject to common control;

(iii) the party is an associate of the Group or a joint venture in which the Group is a venturer;

(iv) the party is a member of key management personnel of the Group or the Group's parent, or a close family member of such an individual, or is an entity under the control, joint control or significant influence of such individuals;

(v) the party is a close family member of a party referred to in (i) or is an entity under the control, joint control or significant influence of such individuals; or

(vi) the party is a post-employment benefit plan which is for the benefit of employees of the Group or of any entity that is a related party of the Group.

Close family members of an individual are those family members who may be expected to influence, or be influenced by, that individual in their dealings with the entity.

### (ab) Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

In accordance with the Group's internal financial reporting system, the Group has chosen business segment information as the primary reporting format and geographical segment information as the secondary reporting format for the purposes of these financial statements.

Segment revenue, expenses, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to that segment. For example, segment assets may include inventories, trade receivables and property, plant and equipment. Segment revenue, expenses, assets, and liabilities are determined before intra-group balances and intra-group transactions are eliminated as part of the consolidation process, except to the extent that such intra-group balances and transactions are between Group enterprises within a single segment. Inter-segment pricing is based on similar terms as those available to other external parties.

## 2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (ab) Segment reporting *(Continued)*

Segment capital expenditure is the total cost incurred during the period to acquire segment assets (both tangible and intangible) that are expected to be used for more than one period.

Unallocated items mainly comprise financial and corporate assets, interest-bearing loans, borrowings, corporate and financing expenses.

## 3. CHANGES IN ACCOUNTING POLICIES

The HKICPA has issued a number of new and revised HKFRSs and Interpretations that are first effective or available for early adoption for the current accounting period of the Group and the Company.

There have been no significant changes to the accounting policies applied in these financial statements for the years presented as a result of these developments. However, as a result of the adoption of HKFRS 7, *Financial instruments: Disclosures* and the amendment to HKAS 1, *Presentation of financial statements: Capital disclosures*, there have been some additional disclosures provided as follows:

As a result of the adoption of HKFRS 7, the financial statements include expanded disclosure about the significance of the Group's financial instruments and the nature and extent of risks arising from those instruments, compared with the information previously required to be disclosed by HKAS 32, *Financial instruments: Disclosure and presentation*. These disclosures are provided throughout these financial statements, in particular in note 36.

The amendment to HKAS 1 introduces additional disclosure requirements to provide information about the level of capital and the Group's and the Company's objectives, policies and processes for managing capital. These new disclosures are set out in note 33(e).

Both HKFRS 7 and the amendment to HKAS 1 do not have any material impact on the classification, recognition and measurement of the amounts recognised in the financial instruments.

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period (see note 44).

## 4. TURNOVER

The Group is principally engaged in property development, property investments and trading of leather products. The Group ceased the retailing business and provision of healthcare and medical related services following the disposal of those subsidiaries in 2006 as set out in Note 11.

The amount of each significant category of revenue recognised in turnover during the year is analysed as follows:

| | **2007** | 2006 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Continuing operations | | |
| Sale of leather products | **68,243** | 72,532 |
| Gross rentals from investment properties | **919** | 341 |
| Gross proceeds from properties sold | **26,957** | – |
| | **96,119** | 72,873 |
| Discontinued operations | | |
| Revenue from retailing business | **–** | 9,300 |
| Revenue from healthcare and medical-related services | **–** | 567 |
| | **–** | 9,867 |
| | **96,119** | 82,740 |

## 5. OTHER REVENUE AND NET INCOME

| | **2007** | 2006 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| **Other revenue** | | |
| Continuing operations | | |
| Interest income | **3,925** | 1,180 |
| Rentals receivable from operating leases other than those relating to investment properties | **314** | 587 |
| Others | **–** | 493 |
| | **4,239** | 2,260 |
| Discontinued operations | | |
| Interest income | **–** | 18 |
| Commission income | **–** | 238 |
| Rentals receivable from operating leases other than those relating to investment properties | **–** | 205 |
| Others | **–** | 48 |
| | **–** | 509 |
| | **4,239** | 2,769 |

## 5. OTHER REVENUE AND NET INCOME *(Continued)*

| | **2007** | 2006 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| **Other net income** | | |
| Continuing operations | | |
| Reversal of impairment loss for bad and doubtful debts | **107** | 11 |
| Net exchange gains | **375** | 4 |
| Net realised and unrealised gains/(losses) on trading securities | **16** | (7) |
| Others | **681** | 430 |
| Reversal of provision for long service payments | **340** | – |
| Gain on disposal of investment properties | **444** | – |
| Bad debts recovered | **3** | – |
| Reversal of rental payable | **1,806** | – |
| | **3,772** | 438 |
| Discontinued operations | | |
| Net exchange gains | **–** | 66 |
| | **–** | 66 |
| | **3,772** | 504 |

## 6. PROFIT BEFORE TAXATION

### (a) Finance costs

| | Continuing Operations | | Discontinued operations | | Consolidated | |
|---|---|---|---|---|---|---|
| | **2007** | 2006 | **2007** | 2006 | **2007** | 2006 |
| | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* |
| Interest on bank loans, overdrafts and other loans wholly repayable within five years | **17,675** | 14,103 | **–** | – | **17,675** | 14,103 |
| Effective interest expenses of convertible notes | **5,073** | 3,552 | **–** | – | **5,073** | 3,552 |
| Finance charges on obligations under finance leases | **1** | 8 | **–** | 16 | **1** | 24 |
| Other borrowing costs | **4,769** | 372 | **–** | – | **4,769** | 372 |
| Total borrowing costs | **27,518** | 18,035 | **–** | 16 | **27,518** | 18,051 |
| Less: borrowing costs capitalized into* | | | | | | |
| – properties under development | **(4,733)** | (11,140) | **–** | – | **(4,733)** | (11,140) |
| – investment properties | **–** | (367) | **–** | – | **–** | (367) |
| | **22,785** | 6,528 | **–** | 16 | **22,785** | 6,544 |

* The borrowing costs have been capitalised at a rate of 11% per annum (2006: 5.9%-7.0%).

# 6. PROFIT BEFORE TAXATION *(Continued)*

## (b) Other items

Profit before taxation is arrived at after charging/(crediting):

| | Continuing Operations | | Discontinued operations | | Consolidated | |
|---|---|---|---|---|---|---|
| | **2007** | 2006 | **2007** | 2006 | **2007** | 2006 |
| | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* |
| Charging: | | | | | | |
| Staff costs (including directors' remuneration) | | | | | | |
| – salaries, wages and other benefits | **17,596** | 17,826 | **–** | 2,456 | **17,596** | 20,282 |
| – retirement benefits scheme contributions | **672** | 282 | **–** | 93 | **672** | 375 |
| Total staff costs | **18,268** | 18,108 | **–** | 2,549 | **18,268** | 20,657 |
| Auditors' remuneration | | | | | | |
| – audit services for current year | **1,707** | 1,647 | **–** | 21 | **1,707** | 1,668 |
| – (over)/under-provision in prior years | **220** | (200) | **–** | – | **220** | (200) |
| | **1,927** | 1,447 | **–** | 21 | **1,927** | 1,468 |
| – other services | **380** | 85 | **–** | – | **380** | 85 |
| | **2,307** | 1,532 | **–** | 21 | **2,307** | 1,553 |
| Cost of inventories | **48,937** | 51,290 | **–** | 5,278 | **48,937** | 56,568 |
| Depreciation | **2,342** | 1,634 | **–** | 1,052 | **2,342** | 2,686 |
| Donations | **–** | 210 | **–** | 1 | **–** | 211 |
| Loss on disposal of inventories | **–** | – | **–** | 1,744 | **–** | 1,744 |
| Operating lease charges for premises | **2,406** | 3,030 | **–** | 4,947 | **2,406** | 7,977 |
| Loss on disposal of property, plant and equipment | **9** | 29 | **–** | 2,272 | **9** | 2,301 |
| Impairment loss for bad and doubtful debts | **583** | 536 | **–** | 46 | **583** | 582 |
| Crediting: | | | | | | |
| Rental receivable from investment properties less direct outgoings for tenanted units of HK$130,000 and vacant units of HK$213,000 (2006: – tenanted units: – HK$31,000 – vacant units: – HK$40,000) | **(576)** | (270) | **–** | – | **(576)** | (270) |

## 7. SHARE OF PROFITS LESS LOSSES OF ASSOCIATES

### Hotel Golden Dragon (Macao) Company Limited

The 40% interest in Hotel Golden Dragon (Macao) Company Limited ("Hotel Golden Dragon") was acquired by the Group in 2005. Pursuant to the Provisional Sale and Purchase Agreement dated 3 January 2005 entered into between the vendors and Pearl Oriental Macau Limited (the "Purchaser", a wholly owned subsidiary of the Company), the vendors guaranteed and warranted to the Purchaser that the audited consolidated net profit after taxation of Hotel Golden Dragon for each of the three years for the period from 5 January 2005 to 4 January 2008, before the payment of bank loan interest, shall not be less than HK$200 million.

## 8. DIRECTORS' EMOLUMENTS

Directors' emoluments disclosed pursuant to section 161 of the Hong Kong Companies Ordinance is as follows:

| | Directors' fees | Salaries, allowances and benefits-in-kind | Retirement scheme contributions | 2007 Total |
|---|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| **Executive directors** | | | | |
| Law Wing Yee, Wendy | – | – | – | – |
| Lee Siu Yuk, Eliza | – | 1,308 | 12 | 1,320 |
| Wu Ka I, Miguel (Resigned on 20 April 2007) | – | – | – | – |
| **Non-executive directors** | | | | |
| Alves Leonel Alberto | 200 | – | – | 200 |
| **Independent non-executive directors** | | | | |
| Li Kam Fai, Dominic (Appointed on 20 August 2007) | 83 | – | – | 83 |
| Kwok Hong Yee, Jesse | 200 | – | – | 200 |
| Wong King Lam, Joseph (Resigned on 20 August 2007) | 117 | – | – | 117 |
| Lau Wai Ming | 200 | – | – | 200 |
| | 800 | 1,308 | 12 | 2,120 |

## 8. DIRECTORS' EMOLUMENTS *(Continued)*

| | Directors' fees *HK$'000* | Salaries, allowances and benefits in kind *HK$'000* | Retirement scheme contributions *HK$'000* | 2006 Total *HK$'000* |
|---|---|---|---|---|
| **Executive directors** | | | | |
| Lee Sam Yuen, John (Resigned as director on 1 May 2006) | – | 1,264 | 8 | 1,272 |
| Law Wing Yee, Wendy | – | 270 | 6 | 276 |
| Lee Siu Yuk, Eliza | – | 960 | 12 | 972 |
| Wu Ka I, Miguel | 790 | – | – | 790 |
| **Non-executive directors** | | | | |
| Alves Leonel Alberto | 200 | – | – | 200 |
| Chui Sai Cheong (Resigned on 25 August 2006) | 117 | – | – | 117 |
| **Independent non-executive directors** | | | | |
| Kwok Hong Yee, Jesse | 200 | – | – | 200 |
| Wong King Lam, Joseph | 200 | – | – | 200 |
| Lau Wai Ming | 200 | – | – | 200 |
| | 1,707 | 2,494 | 26 | 4,227 |

During the year, no emoluments (2006: nil) were paid by the Group to any of the directors as an inducement to join or upon joining the Group or as compensation for loss of office. None of the directors waived or agreed to waive any remuneration for the years ended 31 December 2007 and 2006.

## 9. INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest paid emoluments one (2006: two) is a director whose emoluments are disclosed in note 8. The aggregate of the emoluments in respect of the other four (2006: three) individuals are as follows:

| | **2007** | 2006 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Salaries and other emoluments | **9,554** | 4,229 |
| Retirement scheme contributions | **64** | 35 |
| | **9,618** | 4,264 |

The emoluments of the four (2006: three) individuals with the highest emoluments are within the following bands:

| | **2007** | 2006 |
|---|---|---|
| | ***Number of individuals*** | *Number of individuals* |
| HK$3,500,001 to HK$4,000,000 | **1** | – |
| HK$3,000,001 to HK$3,500,000 | **–** | – |
| HK$2,500,001 to HK$3,000,000 | **–** | – |
| HK$2,000,001 to HK$2,500,000 | **–** | – |
| HK$1,500,001 to HK$2,000,000 | **–** | – |
| HK$1,000,001 to HK$1,500,000 | **3** | 3 |
| | **4** | 3 |

During the year, no emoluments (2006: nil) were paid by the Group to any of the five highest paid individuals as an inducement to join or upon joining the Group or as a compensation for loss of office.

## 10. INCOME TAX IN THE CONSOLIDATED INCOME STATEMENT

### (a) Taxation in the consolidated income statement represents:

| | Continuing operations | | Discontinued operations | | Consolidated | |
|---|---|---|---|---|---|---|
| | **2007** | 2006 | **2007** | 2006 | **2007** | 2006 |
| | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* |
| Deferred tax expense *(note 31)* | **9** | – | **–** | – | **9** | – |

Hong Kong profits tax was not provided for in the financial statements as the Group has no estimated assessable profits arising in Hong Kong during the years ended 31 December 2007 and 2006.

PRC subsidiaries are subject to PRC Enterprise Income Tax at 33%. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates, based on prevailing legislation, interpretations and practice in respect thereof during the year.

The PRC Enterprises Income Tax was not provided for in the financial statements as PRC subsidiaries did not have any assessable profits during the years ended 2007 and 2006.

On 16 March 2007, the Fifth Plenary Session of the Tenth National People's Congress passed the Corporate Income Tax Law of the PRC ("New Tax Law") which took effect on 1 January 2008. The PRC income tax rate is unified to 25% for all enterprises.

The enactment of the new tax law is not expected to have any financial effect on the amounts accrued in the consolidated balance sheet in respect of current tax payable.

Further under the New Tax Law, from 1 January 2008, non-resident enterprises without an establishment or place of business in the PRC or which have an establishment or place of business in the PRC but whose relevant income is not effectively connected with the establishment or a place of business in the PRC, will be subject to withholding tax at the rate of 10% (unless reduced by treaty) on various types of passive income such as dividends derived from sources within the PRC. The Group has already assessed the impact of the New Tax Law regarding this withholding tax and considered the New Tax Law would not have a significant impact on the results of operations and financial position of the Group as at 31 December 2007.

## 10. INCOME TAX IN THE CONSOLIDATED INCOME STATEMENT *(Continued)*

### (b) Reconciliation between tax expense and accounting profit/(loss) at applicable rates:

| | Continuing operations | | Discontinued operations | | Consolidated | |
|---|---|---|---|---|---|---|
| | **2007** | 2006 | **2007** | 2006 | **2007** | 2006 |
| | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* |
| Profit/(loss) before taxation | **100,569** | 74,737 | **–** | (17,437) | **100,569** | 57,300 |
| Notional tax on profit before taxation calculated at the rate of 17.5% (2006:17.5%) | **17,600** | 13,080 | **–** | (3,051) | **17,600** | 10,029 |
| Tax effect of non-deductible expenses | **1,816** | 2,475 | **–** | 2,164 | **1,816** | 4,639 |
| Tax effect of non-taxable income | **(24,472)** | (16,895) | **–** | (351) | **(24,472)** | (17,246) |
| Tax effect of unused tax losses not recognised | **5,657** | 1,292 | **–** | 1,238 | **5,657** | 2,530 |
| Effect of different tax rates of the companies of the Group | **(568)** | 48 | **–** | – | **(568)** | 48 |
| Others | **(24)** | – | **–** | – | **(24)** | – |
| Actual tax expense | **9** | – | **–** | – | **9** | – |

## 11. DISCONTINUED OPERATIONS

### (a) Disposal of the retailing business in 2006

On 27 June 2006, Star Palace Enterprises Limited ("Star Palace"), a 70% owned subsidiary of the Company, entered into an agreement with Star (1) Limited ("Star (1)"), a company wholly owned by two directors of the Company, Mr. Law Kar Po and Ms. Law Wing Yee, Wendy. Pursuant to the agreement Star Palace disposed its assets, rights and contracts related to the shoes and bags retail business to Star (1) for a consideration of HK$950,000. Upon completion of the disposals, Star Palace ceased to conduct the shoes and bags retail business. Further details of this disposal were set out in the Company's announcement dated 29 June 2006 and the circular dated 13 July 2006.

## 11. DISCONTINUED OPERATIONS *(Continued)*

### (b) Disposal of the healthcare and medical related business in 2006

On 6 October 2006, Canasta Overseas (BVI) Limited ("Canasta"), a wholly owned subsidiary of the Company, entered into an agreement with an independent third party. Pursuant to the agreement Canasta disposed of its entire interest in China healthcare Limited, including its benefits in the shareholders' loans and profit guarantee for an aggregate consideration of HK$2,000,000. Further details of this disposal are set out in the Company's announcement of the Company dated 9 October 2006.

The combined results and cash flows of these discontinued operations (i.e. the retailing and healthcare and medical related business) included in the consolidated income statement and the consolidated cash flow statement are set out below.

### (c) An analysis of the result and cash flows of the discontinued operations is as follows:

| | *Notes* | 2006<br>*HK$'000* |
|---|---|---|
| Turnover | *4, 13* | 9,867 |
| Other revenue | *5* | 509 |
| Other net income | *5* | 66 |
| Expenses | | (27,969) |
| Loss from operations | *6* | (17,527) |
| Share of results of associates | | 90 |
| Loss before taxation | | (17,437) |
| Taxation | *10(a)* | – |
| Loss for the year from discontinued operations | | (17,437) |
| **Cash flows from discontinued operations** | | |
| Net cash used in operating activities | | (1,021) |
| Net cash generated from financing activities | | 2,824 |
| Net cash used in investing activities | | (3,208) |
| Net cash outflow | | (1,405) |

## 12. PROFIT ATTRIBUTABLE TO EQUITY SHAREHOLDERS OF THE COMPANY

The consolidated profit attributable to equity shareholders of the Company includes a loss of HK$14,750,000 (2006: HK$63,054,000) which has been dealt with in the financial statements of the Company.

## 13. SEGMENT INFORMATION

### Business segments

In accordance with the Group's internal financial reporting and management purposes, the Group has determined that business segments are its primary reporting format and geographical segments are its secondary reporting format, with each segment organised and managed separately.

In 2007, the Group is organised into two business segments, namely (i) property development and investments and (ii) trading of leather products. In last year, in addition to the foregoing business segments, the Group had retailing, healthcare and medical related services segments which were ceased in 2006.

Segment information about these businesses is presented below.

**Year ended 31 December 2007**

| | Continuing operations | | | | | Discontinued operations | | | | Consolidated |
|---|---|---|---|---|---|---|---|---|---|---|
| | Property development and investment | Trading | Un-allocated | Elimination | Sub-total | Retailing | Healthcare and medical related business | Elimination | Sub-total | |
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| Revenue from external customers | 27,876 | 68,243 | – | – | 96,119 | – | – | – | – | 96,119 |
| Segment results | 7,132 | (1,402) | | | 5,730 | – | – | | – | 5,730 |
| Unallocated operating income and expenses | | | | | (11,432) | | | | – | (11,432) |
| Release of negative goodwill | | | | | 5,257 | | | | – | 5,257 |
| Loss from operations | | | | | (445) | | | | – | (445) |
| Finance costs | | | | | (22,785) | | | | – | (22,785) |
| Share of results of associates | | | | | 123,799 | | | | – | 123,799 |
| Profit before taxation | | | | | 100,569 | | | | – | 100,569 |
| Taxation | | | | | (9) | | | | – | (9) |
| Profit for the year | | | | | 100,560 | | | | – | 100,560 |
| **Segment assets** | 2,063,775 | 28,017 | 474,546 | (350,425) | 2,215,913 | – | – | – | – | 2,215,913 |
| **Segment liabilities** | (1,505,494) | (80,312) | (283,592) | 808,790 | (1,060,608) | – | – | – | – | (1,060,608) |
| **Other segment information** | | | | | | | | | | |
| Capital expenditure | 189,136 | 921 | 104 | – | 190,161 | – | – | – | – | 190,161 |
| Depreciation | 653 | 1,334 | 355 | – | 2,342 | – | – | – | – | 2,342 |

## 13. SEGMENT INFORMATION *(Continued)*

### Business segments *(Continued)*

**Year ended 31 December 2006**

| | Continuing operations | | | | | Discontinued operations | | | | Consolidated |
|---|---|---|---|---|---|---|---|---|---|---|
| | Property development and investment | Trading | Un-allocated | Elimination | Sub-total | Retailing | Healthcare and medical related business | Elimination | Sub-total | |
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| Revenue from external customers | 341 | 72,532 | – | – | 72,873 | 9,300 | 567 | – | 9,867 | 82,740 |
| Segment results | 280 | (661) | | | (381) | (11,339) | (6,172) | | (17,511) | (17,892) |
| Unallocated operating income and expenses | | | | | (13,819) | | | | – | (13,819) |
| Loss from operations | | | | | (14,200) | | | | (17,511) | (31,711) |
| Finance costs | | | | | (6,528) | | | | (16) | (6,544) |
| Share of results of associates | | | | | 95,465 | | | | 90 | 95,555 |
| Profit/(loss) before taxation | | | | | 74,737 | | | | (17,437) | 57,300 |
| Taxation | | | | | – | | | | – | – |
| Profit/(loss) for the year | | | | | 74,737 | | | | (17,437) | 57,300 |
| Segment assets | 541,863 | 31,468 | 1,176,121 | (490,279) | 1,259,173 | 3,032 | – | – | 3,032 | 1,262,205 |
| Segment liabilities | (544,101) | (82,320) | (621,589) | 732,206 | (515,804) | (17,940) | – | 11,740 | (6,200) | (522,004) |
| Other segment information | | | | | | | | | | |
| Capital expenditure | 377,650 | 2 | 103 | – | 377,755 | 825 | – | – | 825 | 378,580 |
| Depreciation | 9 | 1,267 | 358 | – | 1,634 | 370 | 682 | – | 1,052 | 2,686 |

## 13. SEGMENT INFORMATION *(Continued)*

### Geographical segments

The Group's operations are located in Hong Kong, Macau and other region in the People's Republic of China ("PRC").

In presenting information on the basis of geographical segments, segment revenue is based on the geographical location of customers. Segment assets and capital expenditure are based on the geographical location of the assets.

***Continuing operations***

| | Hong Kong | | Macau | | Other regions in the PRC | | Others | | Total | |
|---|---|---|---|---|---|---|---|---|---|---|
| | **2007** | 2006 | **2007** | 2006 | **2007** | 2006 | **2007** | 2006 | **2007** | 2006 |
| | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* |
| Revenue from external customers | **34,469** | 42,237 | **27,691** | 341 | **32,482** | 28,608 | **1,477** | 1,687 | **96,119** | 72,873 |
| Segment assets | **194,060** | 58,567 | **1,183,775** | 1,200,606 | **838,078** | – | **–** | – | **2,215,913** | 1,259,173 |
| Capital expenditure incurred during the year | **104** | 105 | **646** | 377,650 | **189,411** | – | **–** | – | **190,161** | 377,755 |

***Discontinued operations***

| | Hong Kong | | Macau | | Other regions in the PRC | | Others | | Total | |
|---|---|---|---|---|---|---|---|---|---|---|
| | **2007** | 2006 | **2007** | 2006 | **2007** | 2006 | **2007** | 2006 | **2007** | 2006 |
| | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* |
| Revenue from external customers | **–** | 6,603 | **–** | 2,698 | **–** | 566 | **–** | – | **–** | 9,867 |
| Segment assets | **–** | 3,032 | **–** | – | **–** | – | **–** | – | **–** | 3,032 |
| Capital expenditure incurred during the year | **–** | 74 | **–** | 751 | **–** | – | **–** | – | **–** | 825 |

| | Total | |
|---|---|---|
| | **2007** | 2006 |
| | ***HK$'000*** | *HK$'000* |
| Revenue from external customers | **96,119** | 82,740 |
| Segment assets | **2,215,913** | 1,262,205 |
| Capital expenditure incurred during the year | **190,161** | 378,580 |

## 14. EARNINGS PER SHARE

### (a) From continuing and discontinued operations

#### *(i) Basic earnings per share*

The calculation of basic earnings per share is as follows:

| | **2007** | 2006 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Profit attributable to equity holders of the Company | **101,973** | 57,246 |

| | **Number of shares** | |
|---|---|---|
| Weighted average number of ordinary shares | | |
| Issued ordinary shares at 1 January | **2,830,825,840** | 2,430,822,840 |
| Effect of issue of shares for the placings | **34,727,495** | 302,465,753 |
| Effect of warrants exercised | **128,650,934** | 1,118 |
| Effect of conversion of convertible notes | **158,764,105** | – |
| Weighted average number of ordinary shares at 31 December | **3,152,968,374** | 2,733,289,711 |

#### *(ii) Diluted earnings per share*

The diluted earnings per share for the year ended 31 December 2007 is calculated based on the profit of HK$107,046,000 (2006: HK$60,798,000) and the weighted average number of ordinary shares of 3,873,787,129 (2006: 3,151,493,631) attributable to the equity holders of the Company and is calculated as follows:

**Profit attributable to equity holders of the Company (diluted)**

| | **2007** | 2006 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Profit attributable to equity holders of the Company | **101,973** | 57,246 |
| After tax effect of effective interest on liability component of convertible notes | **5,073** | 3,552 |
| Profit attributable to equity holders of the Company | **107,046** | 60,798 |

## 14. EARNINGS PER SHARE *(Continued)*

### (a) From continuing and discontinued operations *(Continued)*

#### *(ii)* ***Diluted earnings per share*** *(Continued)*

**Weighted average number of ordinary shares (diluted)**

| | Number of shares | |
|---|---|---|
| | **2007** | 2006 |
| Weighted average number of ordinary shares at 31 December | **3,152,968,374** | 2,733,289,711 |
| Effect of deemed conversion of warrants | **253,888,635** | – |
| Effect of deemed conversion of convertible notes into the Company's new ordinary shares | **466,930,120** | 418,203,920 |
| Weighted average number of ordinary shares (diluted) at 31 December | **3,873,787,129** | 3,151,493,631 |

The computation of diluted earnings per share for 2006 does not assume the exercise of warrants of the Company because the effect of exercise of outstanding warrants would be anti-dilutive.

### (b) From continuing operations

#### *(i)* ***Basic earning per share***

The calculation of basic earnings per ordinary share is as follows:

| | **2007** | 2006 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Profit attributable to equity holders of the Company | **101,973** | 74,683 |
| | **Number of shares** | |
| Weighted average number of ordinary shares (same as weighted average number of ordinary shares for basic earnings per share for continuing and discontinued operations) | **3,152,968,374** | 2,733,289,711 |

## 14. EARNINGS PER SHARE *(Continued)*

### (b) From continuing operations *(Continued)*

#### *(ii) Diluted earnings per share*

The diluted earnings per share for the year ended 31 December 2007 is calculated based on the profit attributable to the equity shareholders of the Company of HK$107,046,000 (2006: HK$78,235,000) and the weighted average number of ordinary shares of 3,873,787,129 (2006: 3,151,493,631), calculated as follows:

**Profit attributable to equity shareholders of the Company (diluted)**

| | **2007** | 2006 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Profit attributable to equity shareholders of the Company | **101,973** | 74,683 |
| After tax effect of effective interest on liability component of convertible notes | **5,073** | 3,552 |
| Profit attributable to equity shareholders of the Company | **107,046** | 78,235 |

| | **Number of shares** | |
|---|---|---|
| Weighted average number of ordinary shares (same as weighted average number of ordinary shares for basic earnings per share for continuing and discontinued operations) | **3,873,787,129** | 3,151,493,631 |

The computation of diluted earnings per share for the 2006 does not assume the exercise of warrants of the Company because the effect of exercise of outstanding warrants would be anti-dilutive.

### (c) From discontinued operations

#### *(i) Basic loss per share*

No basic loss per share is presented for 2007 because there is no discontinued operations.

The calculation of basic loss per share is as follows:

| | 2006 |
|---|---|
| | *HK$'000* |
| Loss attributable to equity shareholders of the Company | 17,437 |

## 14. EARNINGS PER SHARE *(Continued)*

### (c) From discontinued operations *(Continued)*

#### *(i)* ***Basic loss per share*** *(Continued)*

| | **Number of shares** |
|---|---|
| | 2006 |
| Weighted average number of ordinary shares | |
| Issued ordinary shares at 1 January | 2,430,822,840 |
| Effect of issue of shares for the placings | 302,465,753 |
| Effect of warrants exercised | 1,118 |
| Effect of conversion of convertible notes | – |
| Weighted average number of ordinary shares at 31 December | 2,733,289,711 |

#### *(ii)* ***Diluted loss per share***

No diluted loss per share is presented for 2007 because there is no discontinued operations.

No diluted loss per share is presented for 2006 because the effect of exercise of outstanding warrants and conversion of convertible notes would be anti-dilutive.

## 15. INVESTMENT PROPERTIES

| | **The Group** | |
|---|---|---|
| | **2007** | 2006 |
| | ***HK$'000*** | *HK$'000* |
| Valuation | | |
| At 1 January | **61,114** | – |
| Acquired on acquisition of subsidiaries | **6,203** | – |
| Exchange realignment | **217** | |
| Addition during the year | **–** | 61,114 |
| Disposal during the year | **(8,647)** | – |
| Valuation gains | **9,633** | – |
| At 31 December | **68,520** | 61,114 |

## 15. INVESTMENT PROPERTIES *(Continued)*

(a) At 31 December 2007, certain investment properties were pledged as securities for bank loans as detailed in note 41.

(b) The fair value of the Group' s investment properties located in Macau at 31 December 2007 has been arrived at on the basis of a valuation carried out by Savills (Macau) Limited, independent qualified professional valuers not connected with the Group, Savills (Macau) Limited holds a recognised and relevant professional qualification and has recent experience in the location and category of investment properties being valued. The valuation was arrived at by reference to the market evidence of transaction prices for similar properties for the vacant units. The tenanted units have been valued on the basis of capitalisation of the net income receivable.

All investment properties of the Group located in PRC were revalued as at 31 December 2007 on an open market value basis calculated by reference to net rental income allowing for reversionary income potential. The valuations were carried out by an independent firm of DTZ Debenham Tie Leung Limited which holds a recognised and relevant professional qualification and has recent experience in the location and category of property being valued.

(c) Valuation of property shown above comprises:

| | **2007** | 2006 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Properties in Macau held under medium-term leases | **62,100** | 61,114 |
| Properties in PRC | **6,420** | – |
| | **68,520** | 61,114 |

## 16. PROPERTY, PLANT AND EQUIPMENT

**The Group**

| | Land and buildings *HK$'000* | Leasehold improvements *HK$'000* | Office equipment *HK$'000* | Plant and machinery *HK$'000* | Motor vehicles *HK$'000* | Furniture and fixtures *HK$'000* | Total *HK$'000* |
|---|---|---|---|---|---|---|---|
| **At Cost** | | | | | | | |
| At 1 January 2006 | 12,741 | 6,635 | 5,103 | 13,337 | 3,339 | 1,582 | 42,737 |
| Additions | – | 634 | 168 | – | – | 128 | 930 |
| Disposals | – | (2,038) | (748) | – | – | (465) | (3,251) |
| Reclassified as held for disposal on sale of subsidiaries | – | (2,339) | (1,594) | (4,330) | – | (2) | (8,265) |
| At 31 December 2006 and 1 January 2007 | 12,741 | 2,892 | 2,929 | 9,007 | 3,339 | 1,243 | 32,151 |
| Additions | – | 255 | 291 | – | 399 | 126 | 1,071 |
| Acquired on acquisition of subsidiaries | 6,228 | – | 352 | – | 745 | 121 | 7,446 |
| Disposals | – | – | (9) | – | – | – | (9) |
| At 31 December 2007 | 18,969 | 3,147 | 3,563 | 9,007 | 4,483 | 1,490 | 40,659 |
| **Accumulated depreciation and impairment** | | | | | | | |
| At 1 January 2006 | 9,248 | 3,685 | 2,830 | 8,680 | 1,586 | 985 | 27,014 |
| Charge for the period | 682 | 629 | 523 | 191 | 556 | 105 | 2,686 |
| Eliminated on disposal | – | (171) | (67) | – | – | (14) | (252) |
| Eliminated on disposal on sale of subsidiaries | – | (1,464) | (751) | (948) | – | – | (3,163) |
| Exchange alignment | (77) | – | – | (13) | – | – | (90) |
| At 31 December 2006 and 1 January 2007 | 9,853 | 2,679 | 2,535 | 7,910 | 2,142 | 1,076 | 26,195 |
| Charge for the year | 1,364 | 87 | 244 | – | 559 | 88 | 2,342 |
| Exchange alignment | (474) | 128 | (122) | (250) | 181 | (116) | (653) |
| At 31 December 2007 | 10,743 | 2,894 | 2,657 | 7,660 | 2,882 | 1,048 | 27,884 |
| **Carrying amount** | | | | | | | |
| At 31 December 2007 | 8,226 | 253 | 906 | 1,347 | 1,601 | 442 | 12,775 |
| At 31 December 2006 | 2,888 | 213 | 394 | 1,097 | 1,197 | 167 | 5,956 |

## 16. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

(a) The analysis of carrying amount of properties held by the Group is as follows:

| | The Group | |
|---|---|---|
| | **2007** | 2006 |
| | ***HK$'000*** | *HK$'000* |
| Outside Hong Kong held under medium-term leases | **8,226** | 2,888 |

(b) At the balance sheet date, the carrying amount of the Group's property, plant and equipment held under finance leases was nil (2006: HK$292,000).

## 17. PROPERTIES UNDER DEVELOPMENT

| | The Group | |
|---|---|---|
| | **2007** | 2006 |
| | ***HK$'000*** | *HK$'000* |
| At 1 January | **389,267** | 72,731 |
| Acquired on acquisition of subsidiaries | **350,465** | – |
| Exchange realignment | **3,018** | – |
| Cost of acquisition of land during the year | **–** | 300,000 |
| Other incidental expenses capitalized during the year | **95,431** | 16,536 |
| Reclassified as held for sale | **(314,276)** | – |
| At 31 December | **523,905** | 389,267 |

(a) During the year ended 31 December 2007, the Group acquired certain properties under development. Upon completion of development, the properties will be classified as investment properties for generating rental income.

(b) At 31 December 2007, certain properties under development were pledged as securities for bank loans as detailed in note 41.

(c) During the year, interest capitalised as cost of properties under development amounted to HK$4,733,000 (2006: HK$11,453,000).

## 17. PROPERTIES UNDER DEVELOPMENT *(Continued)*

(d) The lease terms of land element of properties under development shown above as follows:

| | The Group | |
|---|---|---|
| | **2007** | 2006 |
| | ***HK$'000*** | *HK$'000* |
| Properties in Macau held under | | |
| – medium-term lease | **–** | 300,000 |
| – long lease | **69,400** | 69,400 |
| At end of the year | **69,400** | 369,400 |
| Properties in PRC held under | | |
| – medium-term lease | **297,000** | – |

## 18. INVESTMENTS IN SUBSIDIARIES

| | The Company | |
|---|---|---|
| | **2007** | 2006 |
| | ***HK$'000*** | *HK$'000* |
| Unlisted shares, at cost | **150,548** | 2,101 |
| Less: Impairment loss | **(2,100)** | (2,100) |
| | **148,448** | 1 |
| Loan to subsidiaries | **82,498** | – |
| | **230,946** | 1 |

(a) As detailed in note 11(a) to the financial statements, since disposal of its retail business, Star Palace ceased to conduct the shoes and bags retail business and remained dormant. In 2006, the management of the Group assessed the recoverable amounts of the investments on subsidiaries based on past performance, management's expectations for the market development and certain key assumptions. Based on this assessment, the carrying amount of the investments in subsidiaries was written down by HK$2,100,000. In 2007, the management of the Group further assessed the recoverable amounts of the investments in subsidiaries based on past performance, no further impairment loss was recognised during the year.

(b) The following list contains only the particulars of subsidiaries which principally affected the results, assets or liabilities of the Group. The class of shares held is ordinary unless otherwise stated.

(c) The amounts are interest-free, unsecured and have no fixed term of repayments.

## 18. INVESTMENTS IN SUBSIDIARIES *(Continued)*

| Name of company | Place of incorporation/ registration and operation | Particulars of issued and paid up capital | Proportion of effective interest held by the group | | Principal activities |
|---|---|---|---|---|---|
| | | | Directly | Indirectly | |
| Star Palace Enterprises Limited | Hong Kong | 3,000,000 shares of HK$1 each | 70% | – | Investment holding |
| Pearl Oriental Macau Limited | Hong Kong | 1 share of HK$1 | 100% | – | Investment holding |
| Canasta Overseas Group Limited | British Virgin Islands (“BVI”) | 1 share of US$1 | 100% | – | Investment holding |
| Prospect Sync Holdings Limited | BVI | 1 share of US$1 | 100% | – | Investment holding |
| Dah Hwa Leather & Trading Co., Limited# | Hong Kong | 5,000 shares of HK$100 each | – | 50% | Investment holding and trading of finished leather |
| Guangdong Faith Investment Limited# | Hong Kong | 2,280,000 shares of HK$1 each | – | 50% | Investment holding |
| Inter Leather Limited# | Hong Kong | 100,000 shares of HK$1 each | – | 50% | Inactive |
| Pathway International Limited# | BVI | 100 shares of US$1 each | 50% | – | Investment holding |
| Da Ya Leather Company Limited# | PRC | Registered capital US$820,000 | – | 50% | Processing of finished leather |
| Zhong Da Handbag Company Limited# | PRC | Registered capital HK$9,260,000 | – | 50% | Manufacture of leatherware accessories |
| Honesty Services Limited | Hong Kong | 1 share of HK$1 | 100% | – | Holding of motor vehicle |

## 18. INVESTMENTS IN SUBSIDIARIES *(Continued)*

| Name of company | Place of incorporation/ registration and operation | Particulars of issued and paid up capital | Proportion of effective interest held by the group | | Principal activities |
|---|---|---|---|---|---|
| | | | Directly | Indirectly | |
| Honesty Treasure Limited | Hong Kong | 2 shares of HK$1 each | 50% | 50% | Provision of management service |
| Parsinno International Limited& | Hong Kong | 1 share of HK$1 | 100% | – | Investment holding |
| Son Pou Real Estate Company Limited& | Macau | Registered capital MOP100,000 | – | 51% | Property development |
| Honesty Treasure Management Limited | Macau | Registered capital MOP25,000 | 4% | 96% | Management services |
| Fast Acton Developments Limited | BVI | 1 share of US$1 | 100% | – | Investment holding |
| Continental Ocean Investment and Development Company Limited | Macau | Registered capital MOP200,000 | – | 55% | Property development |
| Super Times Far East Limited | BVI | 1 share of US$1 | 100% | – | Investment holding |
| Central Bingo Group Limited | BVI | 1 share of US$1 | 100% | – | Investment holding |
| China Infrastructure Limited | Hong Kong | 1 share of HK$1 | – | 100% | Investment holding |
| Pan-China (Shenyang) R.E. Development Limited# | PRC | US$15,000,000 | – | 70% | Property development |

# Companies not audited by CCIF CPA Limited.

& As referred a provisional sales and purchase agreement dated on 19 April 2008, the Group disposed of its entire interest in Parsinno International Limited, which hold 51% of Son Pou Real Estate Company Limited. For details, please refer to note 42(f).

## 19. INTERESTS IN ASSOCIATES

| | The Group | |
|---|---|---|
| | **2007** | 2006 |
| | ***HK$'000*** | *HK$'000* |
| Share of net assets, net of dividends received | **730,443** | 657,906 |

The following list contains only the particulars of associates, both of which are unlisted corporate entities, which principally affected the results and net assets of the Group:

| Name of company | Form of business structure | Place of incorporation/ registration and operation | Particulars of issued and paid up capital | Proportion of ownership interest: Group's effective interest | Held by subsidiary | Held by associate | Principal activities |
|---|---|---|---|---|---|---|---|
| Hotel Golden Dragon (Macao) Company Limited# | Incorporated | Macau | Registered capital MOP1,000,000 | 40% | 40% | – | Operation of hotel |
| Sunny Tourist & Entertainment Company Limited# | Incorporated | Macau | Registered capital MOP100,000 | 40% | – | 100% | Provision for tourism, casino business and related services |

# Companies not audited by CCIF CPA Limited

The key consolidated financial information of the associates is as follows:

| | **2007** | 2006 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Non-current assets | **530,002** | 585,802 |
| Current assets | **316,828** | 262,413 |
| Non-current liabilities | **(326,332)** | (364,953) |
| Current liabilities | **(75,421)** | (93,012) |
| Equity | **445,077** | 390,250 |

## 19. INTERESTS IN ASSOCIATES *(Continued)*

| | **2007** | 2006 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Revenues | **476,838** | 589,405 |
| Profit* | **309,498** | 238,664 |

* Included in the profit of the associates for the year ended 31 December 2007 was a valuation gain on hotel property amounting to approximately HK$100 million (2006: HK$25 million).

## 20. TRADING SECURITIES

| | **The Group** | |
|---|---|---|
| | **2007** | 2006 |
| | ***HK$'000*** | *HK$'000* |
| Listed equity securities in Hong Kong, at market value | **59** | 43 |

## 21. INVENTORIES

| | **The Group** | |
|---|---|---|
| | **2007** | 2006 |
| | ***HK$'000*** | *HK$'000* |
| Raw materials | **282** | 266 |
| Work in progress | **81** | 132 |
| Finished goods and merchandise for sale | **7,028** | 7,350 |
| | **7,391** | 7,748 |

At 31 December 2007, the amount of inventories carried at net realizable value less costs to sale was HK$6,908,000 (2006: HK$7,042,000).

## 22. PROPERTIES HELD FOR SALE

At 31 December 2007, none of properties held for sale were carried at net realisable value.

## 23. TRADE AND OTHER RECEIVABLES

| | | The Group | | The Company | |
|---|---|---|---|---|---|
| | | **2007** | 2006 | **2007** | 2006 |
| | *Notes* | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* |
| Amounts due from subsidiaries | *(a)* | **–** | – | **590,937** | 634,159 |
| Trade debtors | *(b) & (d)* | **6,066** | 6,999 | **–** | – |
| Prepayments, deposits and other receivables | *(b), (c) & (d)* | **66,053** | 12,015 | **54,030** | 485 |
| | | **72,119** | 19,014 | **644,967** | 634,644 |

**(a)** An analysis of the amounts due from subsidiaries is listed below:

| | The Company | |
|---|---|---|
| | **2007** | 2006 |
| | ***HK$'000*** | *HK$'000* |
| Due from subsidiaries | **705,226** | 743,779 |
| Less: Impairment | **(114,289)** | (109,620) |
| | **590,937** | 634,159 |

The amounts are unsecured and have no fixed terms of repayment. Out of the total balance, nil balance (2006: HK$3,173,000) bears interest of 8% per annum.

The Group discontinued the healthcare and medical-related business and retailing business, and concluded that the recoverability of the amounts due from subsidiaries in these businesses is remote. Therefore, these amounts were fully impaired in last year.

In 2007, the management of the Group assessed the recoverable amounts of the amount due from subsidiaries. Based on this assessment, an impairment loss of HK$114,289,000 was recognised. The recoverable amounts are based on the evaluation of collectibility, ageing analysis and on management's judgment.

## 23. TRADE AND OTHER RECEIVABLES *(Continued)*

**(b)** Included in trade receivables are trade debtors (net of impairment losses for bad and doubtful debts of HK$79,924,000 (2006: HK$79,449,000)) with the following ageing analysis as of the balance sheet date:

| | The Group | |
|---|---|---|
| | **2007** | 2006 |
| | ***HK$'000*** | *HK$'000* |
| Neither past due nor impaired | **5,717** | 5,515 |
| Less than 1 month past due | **196** | 426 |
| 1 to 3 months past due | **153** | 1,058 |
| | **6,066** | 6,999 |

The general credit terms of the Group range from 30 to 60 days. The Group may, on a case by case basis and after evaluation of the business relationship and creditworthiness of the customers, extend the credit period upon customers' request.

The movement in the allowance for the doubtful debts during the year, including both specific and collective loss components, is as follows:

| | The Group | |
|---|---|---|
| | **2007** | 2006 |
| | ***HK$'000*** | *HK$'000* |
| At 1 January | **79,449** | 78,867 |
| Impairment loss recognised | **583** | 582 |
| Reversal of impairment loss | **(108)** | – |
| At 31 December | **79,924** | 79,449 |

At 31 December 2007, the Group's trade debtors of HK$583,000 (2006: HK$582,000) were individually determined to be impaired. Then individually impaired receivables related to customers that were in financial difficulties and management assessed that only a portion of the receivables is expected to be recovered. The Group does not hold any collateral over these balances.

**(c)** Included in other receivable is a loan receivable of HK$53,500,000 from an independent third party. The loan was made pursuant to a loan agreement dated 27 December 2007.

The loan is secured by the corporate guarantee of Pan-China Construction Group Limited, a minority interest shareholder of Pan-China (Shenyang) R.E. Development Limited ("Pan-China"), repayable within 3 months and bears interest at 8% per annum.

**(d)** Except utility deposits, all these assets are expected to be recovered within one year.

## 24. CASH AND CASH EQUIVALENTS

| | The Group | | The Company | |
|---|---|---|---|---|
| | **2007** | 2006 | **2007** | 2006 |
| | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* |
| Cash and cash equivalents in the balance sheet | **102,182** | 35,495 | **68,912** | 25,584 |
| Less: pledged deposits for issuance of guarantee letter for constructions | **(100)** | (100) | | |
| Cash and cash equivalents in the consolidated cash flow statement | **102,082** | 35,395 | | |

## 25. NON-CURRENT ASSETS HELD FOR SALE

Subsequent to the balance sheet date on 16 April 2008, Continental Ocean Investment and Development Company Limited (Macao) ("CIDCOL"), a subsidiary of the Group, entered into a sales and purchase agreement with an independent third party to dispose of its property under development with a carrying value approximately HK$314 million for a total consideration of HK$530,000,000. The directors of the Company consider that the disposal could reduce the Group's bank borrowings and further enhance the liquidity of the Group. The completion date for the transaction is 75 days from the date of sales and purchase agreement. As at 31 December 2007, final negotiations were in progress and the property under development was classified as non-current asset held for sale.

At 31 December 2007, the property under development were pledged to secure general banking facilities granted to CIDCOL.

## 26. TRADE AND OTHER PAYABLES

| | | The Group | | The Company | |
|---|---|---|---|---|---|
| | | **2007** | 2006 | **2007** | 2006 |
| | *Note* | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* |
| Trade creditors and bills payable | *a* | **7,118** | 3,484 | **–** | – |
| Accruals and other payables | | **49,464** | 19,059 | **2,152** | 3,129 |
| Amounts due to minority interests | *b* | **308,147** | 129,429 | **–** | – |
| Amounts due to related companies | *c* | **171,657** | – | **–** | – |
| Amount due to an ex-director | *d* | **–** | 817 | **–** | – |
| Other loans | *e* | **1,531** | 1,496 | **1,531** | 1,496 |
| | | **537,917** | 154,285 | **3,683** | 4,625 |

## 26. TRADE AND OTHER PAYABLES *(Continued)*

**(a)** Ageing analysis as trade creditors included in trade creditors and bills payable:

| | The Group | |
|---|---|---|
| | **2007** | 2006 |
| | ***HK$'000*** | *HK$'000* |
| Due within 30 days or on demand | **3,752** | 2,832 |
| Due within 31 to 60 days | **390** | 203 |
| Due within 61-90 days | **50** | 2 |
| Due over 90 days | **2,926** | 447 |
| | **7,118** | 3,484 |

**(b)** The amounts due to minority interests were unsecured, non-interest bearing and have no fixed terms of repayment. Out of the total balance, a sum of HK$72,903,000 (2006: HK$69,864,000) were due to the following parties:

| | The Group | |
|---|---|---|
| | **2007** | 2006 |
| | ***HK$'000*** | *HK$'000* |
| Mr. Pedro Chiang ("Mr. Chiang") | **31,334** | 29,984 |
| Mr. Law Kar Po ("Mr. Law") | **20,784** | 19,940 |
| Mr. Hoi Man Pak ("Mr. Hoi") | **11,751** | 11,244 |
| Mr. Wu Ka I, Miguel ("Mr. Wu") | **3,917** | 3,748 |
| Ms. Law Wing Yee, Wendy ("Ms. Law") | **1,200** | 1,200 |
| Ms. Leong Lai Heng ("Ms. Leong") | **3,917** | 3,748 |
| | **72,903** | 69,864 |

At 31 December 2007, Mr. Chiang, Mr. Law, Mr. Hoi, Mr. Wu and Ms. Leong are shareholders of the Company while Ms. Law is the director of the Company.

**(c)** The amounts were unsecured, non-interest-bearing and repayable on demand.

**(d)** At 31 December 2006, the amount due to Mr. Lee Sam Yuen, John, who was a director of the Company until 1 May 2006, was unsecured, non-interest-bearing and has no fixed terms of repayment.

**(e)** At 31 December 2007, other loans of the Group and the Company amounting to HK$1,531,000 (2006: HK$1,496,000) due to independent third parties were unsecured, bearing interest at 2.5% per annum and repayable on demand.

## 27. INTEREST-BEARING BORROWINGS, SECURED

At 31 December 2007, the borrowings were carried at amortized cost and repayable as follows:

| | **2007** | 2006 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Within 1 year or on demand | **253,375** | 289,245 |
| After 1 year but within 2 years | **21,400** | – |
| After 2 years but within 5 years | **–** | – |
| | **274,775** | 289,245 |

At 31 December 2007, the bank loans and overdrafts were secured as follows:

| | **Effective interest rate** | **2007** ***HK$'000*** | Effective interest rate | 2006 *HK$'000* |
|---|---|---|---|---|
| Bank loans | | | | |
| – Secured | **5.20%-8.32%** | **274,775** | 5.94%-8.32% | 289,245 |

**(a)** At 31 December 2007, bank loans of the Group amounting to HK$37,400,000 (2006: HK$37,400,000) were secured by the properties under development of the Group with a carrying amount at the balance sheet date of HK$75,635,000 (2006: HK$75,482,000). In addition of the properties under developments, a total of HK$37,400,000 (2006: HK$37,400,000) was guaranteed by Mr. Pedro Chiang ("Mr. Chiang"), Mr. Wu Ka I, Miguel ("Mr. Wu"), Mr. Ung Kin Kuok ("Mr. Ung") and Ms. Hoi Wa Fan ("Ms. Hoi"), for amounts of HK$11,270,000, HK$11,270,000, HK$8,400,000 and HK$13,260,000 respectively. Mr. Chiang and Mr. Wu are ex-directors of the Company. Mr. Ung and Ms. Hoi have beneficial interest in a subsidiary of the Company.

**(b)** At 31 December 2007, other bank loans of the Group amounting to HK$65,390,000 (2006: HK$97,860,000) were secured by (i) the properties held for sale of the Group with a carrying amount of HK$61,889,000 (2006: HK$85,662,000) at the balance sheet date, (ii) the investment properties of the Group with a carrying amount of HK$62,100,000 (2006: HK$61,114,000) at the balance sheet date, and (iii) corporate guarantee to the extent of HK$97,860,000 put up by the Company.

**(c)** At 31 December 2007, other bank loans of the Group amounting to HK$21,400,000 (2006: Nil) was secured by the land use right in the properties under development with a carrying value of HK$143,470,000 (2006: Nil).

**(d)** At 31 December 2007, other bank loans of the Group amounting to HK$584,750 (2006: HK$3,985,000) were secured by (i) the land and buildings of the Group with a carrying amount of HK$2,349,000 (2006: HK$2,888,000) at the balance sheet date, (ii) certain properties held by a related company of a subsidiary of the Company, and (iii) personal guarantee to the extent of HK$100 million (2006: HK$100 million) executed by a director of a subsidiary of the Company.

## 27. INTEREST-BEARING BORROWINGS, SECURED *(Continued)*

**(e)** At 31 December 2007, other bank loans of the Group amounting to HK$150,000,000 (2006: HK$150,000,000) were secured by the non-current assets held for sale of the Group with a carrying amount at the balance sheet date of HK$314,276,000 (2006: HK$313,785,000). In addition of the non-current assets held for sale, a total of HK$150,000,000 (2006: HK$150,000,000) was guaranteed by Mr. Hoi Man Pak ("Mr. Hoi"), Mr. Wu Ka I, Miguel ("Mr. Wu"), Mr. Choy Wang Kong ("Mr. Choy") and Mr. Law Kar Po ("Mr. Law"), for amounts of HK$45,000,000, HK$7,500,000, HK$37,500,000 and HK$60,000,000 respectively. They have beneficial interest in a subsidiary of the Company.

As referred to the provisional sales and purchase agreement dated 16 April 2008, the loan amounts will be settled by the sales proceeds of the non-current assets held for sale at the completion date of the transaction.

At 31 December 2007 and 2006, all bank loans, except the bank loan under Note 27(c), were repayable within one year.

## 28. OBLIGATIONS UNDER FINANCE LEASES

At 31 December 2007, the Group had obligations under finance lease payable as follows:

| | The Group | | | |
|---|---|---|---|---|
| | Total minimum lease payments | | Present value of minimum lease payments | |
| | **2007** | 2006 | **2007** | 2006 |
| | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* |
| Within one year | – | 14 | – | 13 |
| Total future finance charges | – | (1) | | |
| Present value of lease obligations | – | 13 | | |

## 29. CONVERTIBLE NOTES

### The Group and the Company

On 28 April 2006, the Company issued HK$91,094,000 convertible notes (2011 convertible notes) redeemable within 5 years from the date of issue. The notes bear interest at 2.5% per annum and are unsecured. The holders of the notes have the right at any time after the issue of the notes to convert any outstanding amount of the notes into the shares of the Company at the conversion price of HK$0.148 per share (subject to adjustment) until 27 April 2011. Further details are set out in the Company's circular dated 22 March 2006.

The convertible notes contain two components, namely, a liability component and an equity component. The equity element is presented in equity under the heading "convertible loan notes – equity reserves". The effective interest rate of the liability component is 7.094%.

## 29. CONVERTIBLE NOTES *(Continued)*

### The Group and the Company *(Continued)*

On 24 August 2007, the Company further issued HK$160,000,000 convertible notes (2012 convertible notes) redeemable within 5 years from the date of issue. The notes bear interest at 2.5% per annum and are unsecured. The holders of the notes have the right at any time after the issue of the notes to convert any outstanding amount of the notes into the shares of the Company at the conversion price of HK$0.3 per share (subject to adjustment) until 23 August 2012. Further details are set out in the Company's circular dated 10 July 2007.

The convertible notes contain two components, namely, a liability component and an equity component. The equity element is presented in equity under the heading "convertible loan notes – equity reserves". The effective interest rate of the liability component is 6.738%.

The movement of the liability component of the convertible loan notes for the year is set out below:

| | **2007** | 2006 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Proceeds of issue | **254,646** | 91,094 |
| Equity component | **(45,118)** | (17,119) |
| Liability component at date of issue | **209,528** | 73,975 |
| Interest charged | **5,073** | 3,552 |
| Interest paid | **(2,503)** | – |
| Conversion during the year | **(40,686)** | – |
| Liability component at 31 December | **171,412** | 77,527 |

## 30. PROVISION FOR LONG SERVICE PAYMENTS

| | **The Group** | |
|---|---|---|
| | **2007** | 2006 |
| | ***HK$'000*** | *HK$'000* |
| At the beginning of the year | **934** | 934 |
| Reversal of provision | **(340)** | – |
| At the end of the year | **594** | 934 |

## 31. DEFERRED INCOME TAX – GROUP

| | 2007<br>*HK$'000* |
|---|---|
| The net movement on the deferred income tax account is as follow: | |
| Beginning of the year | – |
| Charged to consolidated income statement *(note 10(a))* | 9 |
| Exchange realignment | 13 |
| Acquisition of subsidiaries *(note 35(a))* | 75,888 |
| End of the year | 75,910 |

The movements in deferred tax liabilities during the year were as follows:

### Deferred income tax liabilities

| | Fair value adjustments arising from acquisition of subsidiaries<br>*HK$'000* | Arising from temporary differences on properties located in PRC<br>*HK$'000* | 2007<br>*HK$'000* |
|---|---|---|---|
| At 1 January 2007 | – | – | – |
| Charged to the consolidated income statement | – | 9 | 9 |
| Arising from acquisition of subsidiaries *(note 35(a))* | 75,888 | – | 75,888 |
| Exchange realignment | 13 | – | 13 |
| At 31 December 2007 | 75,901 | 9 | 75,910 |

## 32. EMPLOYEE RETIREMENT BENEFITS

(a) The Group operates a Mandatory Provident Fund Scheme (the "MPF scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance for employees employed under the jurisdiction of the Hong Kong Employment Ordinance. The MPF scheme is a defined contribution retirement plan administered by independent trustees. Under the MPF scheme, the employer and its employees are each required to make contributions to the plan at 5% of the employees' relevant income, subject to a cap of monthly relevant income of HK$20,000. Contributions to the plan vest immediately.

(b) Pursuant to the relevant labour rules and regulations in the PRC, the Group participates in defined contribution retirement benefit schemes (the "Schemes") organised by the relevant local government authorities, whereby the Group is required to make contributions to the Schemes at a rate ranging from 5% of the eligible employees' salaries. The local government authorities are responsible for the entire pension obligations payable to retired employees which are calculated based on a certain percentage of the basic payroll.

## 33. CAPITAL AND RESERVES

### (a) The Group

| | Attributable to equity shareholders of the Company | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Share capital HK$'000 | Share premium HK$'000 | Capital redemption reserve HK$'000 | Convertible notes equity reserve HK$'000 | Warrant reserve HK$'000 | Exchange reserve HK$'000 | Retained earnings/ (Accumulated losses) HK$'000 | Total HK$'000 | Minority interests HK$'000 | Total equity HK$'000 |
| At 1 January 2006 | 121,541 | 439,019 | 69 | – | 4,950 | (465) | 42,293 | 607,407 | 397 | 607,804 |
| Issue of shares by a placement | 20,000 | 39,200 | – | – | – | – | – | 59,200 | – | 59,200 |
| Acquisition of a subsidiary | – | – | – | – | – | – | – | – | (178) | (178) |
| Issue of convertible notes | – | – | – | 17,119 | – | – | – | 17,119 | – | 17,119 |
| Share issue expenses | – | (767) | – | – | – | – | – | (767) | – | (767) |
| Exchange differences on translation of financial statements of overseas subsidiaries | – | – | – | – | – | (277) | – | (277) | – | (277) |
| Net profit for the year | – | – | – | – | – | – | 57,246 | 57,246 | 54 | 57,300 |
| Share premium set-off against accumulated losses | – | (63,054) | – | – | – | – | 63,054 | – | – | – |
| At 31 December 2006 | 141,541 | 414,398 | 69 | 17,119 | 4,950 | (742) | 162,593 | 739,928 | 273 | 740,201 |
| At 31 December 2006 and 1 January 2007 | 141,541 | 414,398 | 69 | 17,119 | 4,950 | (742) | 162,593 | 739,928 | 273 | 740,201 |
| Shares issued at a premium on exercise of warrant | 13,211 | 73,417 | – | – | – | – | – | 86,628 | – | 86,628 |
| Shares issued at a premium for acquisition of a subsidiary | 6,467 | 44,623 | – | – | – | – | – | 51,090 | – | 51,090 |
| Acquisition of subsidiaries | – | – | – | – | – | – | – | – | 104,311 | 104,311 |
| Issue of convertible notes | – | – | – | 27,999 | – | – | – | 27,999 | – | 27,999 |
| Shares issued at a premium on conversion of convertible notes | 16,926 | 33,175 | – | (9,415) | – | – | – | 40,686 | – | 40,686 |
| Exchange differences on translation of financial statements of overseas subsidiaries | – | – | – | – | – | 3,830 | – | 3,830 | – | 3,830 |
| Release of warrant reserve on exercise of unlisted warrants | – | 4,950 | – | – | (4,950) | – | – | – | – | – |
| Net profit for the year | – | – | – | – | – | – | 101,973 | 101,973 | (1,413) | 100,560 |
| At 31 December 2007 | 178,145 | 570,563 | 69 | 35,703 | – | 3,088 | 264,566 | 1,052,134 | 103,171 | 1,155,305 |
| Reserves retained by: | | | | | | | | | | |
| At 31 December 2007 | | | | | | | | | | |
| – Company and subsidiaries | 178,145 | 570,563 | 69 | 35,703 | – | 3,088 | (46,400) | 741,168 | 103,171 | 844,339 |
| – Associates | – | – | – | – | – | – | 310,966 | 310,966 | – | 310,966 |
| | 178,145 | 570,563 | 69 | 35,703 | – | 3,088 | 264,566 | 1,052,134 | 103,171 | 1,155,305 |
| At 31 December 2006 | | | | | | | | | | |
| – Company and subsidiaries | 141,541 | 414,398 | 69 | 17,119 | 4,950 | (742) | (24,574) | 552,761 | 273 | 553,034 |
| – Associates | – | – | – | – | – | – | 187,167 | 187,167 | – | 187,167 |
| | 141,541 | 414,398 | 69 | 17,119 | 4,950 | (742) | 162,593 | 739,928 | 273 | 740,201 |

## 33. CAPITAL AND RESERVES *(Continued)*

### (b) The Company

| | Share capital | Share premium | Capital redemption reserve | Convertible notes equity reserve | Warrant reserve | Accumulated losses | Total |
|---|---|---|---|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| At 1 January 2006 | 121,541 | 439,019 | 69 | – | 4,950 | – | 565,579 |
| Issue of shares by a placement | 20,000 | 39,200 | – | – | – | – | 59,200 |
| Issue of convertible notes | – | – | – | 17,119 | – | – | 17,119 |
| Share issue expenses | – | (767) | – | – | – | – | (767) |
| Loss for the year | – | – | – | – | – | (63,054) | (63,054) |
| Share premium set-off against accumulated losses | – | (63,054) | – | – | – | 63,054 | – |
| At 31 December 2006 and 1 January 2007 | 141,541 | 414,398 | 69 | 17,119 | 4,950 | – | 578,077 |
| Shares issued at a premium on exercise of warrants | 13,211 | 73,417 | – | – | – | – | 86,628 |
| Shares issued at a premium on conversion of convertible notes | 16,926 | 33,175 | – | (9,415) | – | – | 40,686 |
| Shares issued at a premium for acquisition of a subsidiary | 6,467 | 44,623 | – | – | – | – | 51,090 |
| Issue of convertible notes | – | – | – | 27,999 | – | – | 27,999 |
| Loss for the year | – | – | – | – | – | (14,750) | (14,750) |
| Release of warrant reserve on exercise of unlisted warrants | – | 4,950 | – | – | (4,950) | – | – |
| At 31 December 2007 | 178,145 | 570,563 | 69 | 35,703 | – | (14,750) | 769,730 |

Pursuant to a resolution passed at a directors' meeting held on 31 December 2006, an amount of HK$63,054,000 was transferred from share premium account to offset the accumulated losses of the Company at 31 December 2006.

# 33. CAPITAL AND RESERVES *(Continued)*

## (c) Share capital

| | | 2007 | | 2006 | |
|---|---|---|---|---|---|
| | | **Number of shares** | **Amount** | Number of shares | Amount |
| | *Note* | ***'000*** | ***HK$'000*** | *'000* | *HK$'000* |
| Authorised: | | | | | |
| Ordinary shares of HK$0.05 each | | **5,000,000** | **250,000** | 5,000,000 | 250,000 |
| Ordinary shares, issued and fully paid: | | | | | |
| At 1 January | | **2,830,826** | **141,541** | 2,430,823 | 121,541 |
| Issue of shares by a placement | *(i)* | **–** | **–** | 400,000 | 20,000 |
| Issue of new shares for acquisition of subsidiaries | *(ii)* | **129,342** | **6,467** | – | – |
| Issue of shares on conversion of convertible notes | *(iii)* | **338,522** | **16,926** | – | – |
| Shares issued upon exercise of warrants | *(iv)* | **264,226** | **13,211** | 3 | – |
| At 31 December | | **3,562,916** | **178,145** | 2,830,826 | 141,541 |

*Notes:*

(i) As announced by the Company dated 28 February 2006, the issued share capital was increased by a placing of 400,000,000 new shares (the "placing shares") of HK$0.05 each in the capital of the Company at HK$0.148 per placing share. The placing was completed on 31 March 2006. The new shares issued rank pari passu in all respects with the then existing shares.

(ii) On 25 September 2007, the Group acquired the entire equity interest of Central Bingo Group Limited (the "acquisition"). The purchase consideration of the acquisition was settled by the issue of 129,342,202 ordinary shares of the Company (For details of the acquisition please refer to note 35(a)).

(iii) During the year, the holders of 2006 convertible notes converted certain notes into 338,522,000 ordinary shares at an exercise price of HK$0.148 per share.

## 33. CAPITAL AND RESERVES *(Continued)*

### (c) Share capital *(Continued)*

*Notes: (Continued)*

(iv) On 24 April 2006, the board proposed a conditional bonus warrant issue to the shareholders on the basis of one warrant for every ten shares of the Company held. The initial subscription price was determined at HK$0.26 per share, subject to adjustment, and the bonus warrants ("Warrant 2009") are exercisable at any time during the period from 7 June 2006 to 6 June 2009 (if that day is not a business day, the business day immediately preceding that day) (both days inclusive). New shares issued will rank pari passu in all respects with the existing shares.

In August 2006, new shares were issued upon the conversion of certain "Warrant 2009" into 3,000 new shares of HK$0.05 each at a price of HK$0.26 per share.

During the year, new shares were issued upon the conversion of certain "Warrant 2009" into 32,198,596 and 7,027,280 new shares of HK$0.05 each at a price of HK$0.26 and HK$0.25 per share respectively.

In addition, new shares were issued upon the conversion of the outstanding "Warrant 2007" into 225,000,000 new shares of HK$0.05 each at a price of HK$0.34 per share.

(v) Warrants

Movements in warrants:

| | Date of issue | At1/1/2006 | Issued during the year | Exercised during the year | At 1/1/2007 | Adjustment arising from adjusted exercise prices | Exercised during the year | At 31/12/2007 |
|---|---|---|---|---|---|---|---|---|
| Warrant 2007 | 21/7/2005 | 225,000,000 | – | – | **225,000,000** | – | (225,000,000) | **–** |
| Warrant 2009 | 7/6/2006 | – | 283,082,284 | (3,000) | **283,079,284** | 10,035,227 | (39,225,876) | **253,888,635** |

Terms of unexpired and unexercised warrants at the balance sheet date:

| | Date of issue | Exercisable period | Number of Warrants 2007 | 2006 |
|---|---|---|---|---|
| Warrant 2007 | 21/7/2005 | 21/7/2005-20/7/2007 | **–** | 225,000,000 |
| Warrant 2009 | 7/6/2006 | 7/6/2006-6/6/2009 | **253,888,635** | 283,079,284 |

## 33. CAPITAL AND RESERVES *(Continued)*

### (d) Nature and purpose of reserves

(i) Share premium represents the excess of share issue consideration received over the par value of shares issued.

(ii) Capital redemption reserve represents the nominal value of shares repurchased out of distributable profits.

(iii) Convertible note equity reserve represents the value of the non-exercised equity component of convertible notes issued by the Company recognised in accordance with the accounting policy adopted for convertible notes set out in note 2(p).

(iv) Warrant reserve represents the net proceeds received from the issue of warrants of the Company. The reserve will be transferred to share capital and share premium accounts upon the exercise of the warrants.

In July 2005, the Company issued 225,000,000 non-listed warrants at an issue price of HK$0.022 per warrant by private placement. Each warrant entitles the holder to subscribe for one ordinary share of HK$0.05 each at an initial subscription price of HK$0.35 per share during the two-year period from the date of allocation and issue of the warrants.

(v) The exchange reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations as well as the effective portion of any foreign exchange differences arising from hedges of the net investment in these foreign operations. The reserve is dealt with in accordance with the accounting policies set out in note 2(x).

(vi) The Company's reserves available for distribution represent the share premium and retained profits. Under the Companies Law of the Cayman Islands, share premium of the Company is available for distributions to shareholders subject to the provisions of the Company's Memorandum or Articles of Associations and provided that immediately following the distribution the Company is able to pay its debts as they fall due in the ordinary course of business. As at 31 December 2007, the aggregate value of the share premium and retained profits of the Company available for distribution is HK$555,813,000 (2006: HK$414,398,000).

### (e) Capital management

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to stakeholders through the optimization of the debt and equity balance. The Group's overall strategy remains unchanged from prior years.

The capital structure of the Group consists of debt (which includes borrowings, convertible notes and obligations under finance leases), cash and cash equivalents and equity attributable to equity holders of the Company, comprising issued share capital, reserves and accumulated losses.

## 33. CAPITAL AND RESERVES *(Continued)*

### (e) Capital management *(Continued)*

The net debt-to-capital ratio at 31 December 2007 and 2006 was as follows:

| | | The Group | | The Company | |
|---|---|---|---|---|---|
| | *Note* | **2007** | 2006 | **2007** | 2006 |
| | | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* |
| **Current liabilities:** | | | | | |
| Trade and other payables | *26* | **537,917** | 154,285 | **3,683** | 4,625 |
| Interest-bearing borrowings, secured | *27* | **253,375** | 289,245 | **–** | – |
| Obligation under finance lease | *28* | **–** | 13 | **–** | – |
| | | **791,292** | 443,543 | **3,683** | 4,625 |
| **Non-current liabilities:** | | | | | |
| Interest-bearing borrowings, secured | *27* | **21,400** | – | **–** | – |
| Convertible notes | *29* | **171,412** | 77,527 | **171,412** | 77,527 |
| **Total debt** | | **984,104** | 521,070 | **175,095** | 82,152 |
| Less: Cash and cash equivalents | *24* | **(102,182)** | (35,495) | **(68,912)** | (25,584) |
| **Net debt** | | **881,922** | 485,575 | **106,183** | 56,568 |
| Capital | *(a)* | **1,052,134** | 739,928 | **769,730** | 578,077 |
| **Net debt-to-capital ratio** | | **83.8%** | 65.6% | **13.8%** | 9.8% |

*Note:*

(a) Capital includes all capital reserves of the Group.

## 34. DEFERRED TAXATION NOT RECOGNIZED

At the balance sheet date and for the year, the Group has not recognised deferred tax asset in respect of tax losses of approximately HK$132 million (2006: HK$126 million) as it is not probable that taxable profit will be available against which tax losses can be utilised.

The tax losses of approximately HK$118 million (2006: HK$121 million) arising in Hong Kong have no expiry date under current tax legislation. Tax losses arising in the PRC of approximately HK$14 million (2006: HK$5 million) can be used to offset against future taxable profits of the companies in which the losses arose within a maximum period of 5 years.

The Group and the Company had no other significant unprovided deferred tax liabilities not recognised for the year and at the balance sheet date.

## 35. NOTES TO CONSOLIDATED CASH FLOW STATEMENT

### (a) Acquisition of subsidiaries

(i) On 25 September 2007, the Group acquired the entire issued capital of Central Bingo Group Limited ("CBGL") from an independent third party. CBGL is a company incorporated in BVI. CBGL's sole asset is the 100% equity interest in China Infrastructure Limited ("CIL") and the major asset of CIL is a development site located in Shenyang, PRC. The consideration of the acquisition was approximately HK$148 million and was satisfied by cash of HK$97,357,000 and the issue of 129,342,202 ordinary shares of the Company on 25 September 2007.

| | **Carrying value of acquiree's net assets** *HK$'000* | **Fair value of net assets at acquisition** *HK$'000* |
|---|---|---|
| ***Net assets acquired:*** | | |
| Cash and cash equivalents | 837 | 837 |
| Properties held for sale | 202,087 | 239,846 |
| Trade and other receivables | 8,157 | 8,157 |
| Deferred expenditure | 6,228 | 6,228 |
| Investment properties | 6,200 | 6,203 |
| Property, plant and equipment | 1,210 | 1,218 |
| Property under development | 86,236 | 350,465 |
| Trade and other payables | (222,751) | (222,751) |
| Shareholder's loan | (56,300) | (56,300) |
| Minority interests | (36,300) | (104,311) |
| Deferred income tax liability *(Note 31)* | (389) | (75,888) |
| | (4,785) | 153,704 |
| Negative goodwill on acquisition | | (5,257) |
| Satisfied by: | | |
| Cash | | 97,357 |
| Market value of ordinary shares issued by the Company for the acquisition | | 51,090 |
| | | 148,447 |
| ***Analysis of net outflow of cash and cash equivalents in respect of acquisition of a subsidiary:*** | | |
| Cash consideration | | 97,357 |
| Less: Cash and cash equivalents acquired | | (837) |
| | | 96,520 |

CBGL and its subsidiaries contributed HK$3,817,000 to the Group's loss for the period between the date of acquisition and the balance sheet date.

## 35. NOTES TO CONSOLIDATED CASH FLOW STATEMENT *(Continued)*

### (a) Acquisition of subsidiaries *(Continued)*

(ii) On 20 February 2006, the Group entered into a binding letter of intent to acquire 55% of the issued capital of Continental Ocean Investment and Development Company Limited ("CIDCOL"). CIDCOL is a company incorporated in Macau and its only material asset is a development site located in Macau. The consideration of the acquisition was approximately HK$91.1 million and was satisfied by the issue of 2.5% fixed interest convertible redeemable notes ("convertible notes") by the Company on 28 April 2006. The vendors, other than Mr. Choy Wang Kong, are directors or their associates of the Company as at 31 December 2006.

| | Year ended 31/12/2006 *HK$'000* |
|---|---|
| **Net assets acquired:** | |
| Property under development | 304,157 |
| Trade and other receivables | 19 |
| Cash and cash equivalents | 11,456 |
| Trade and other payables | (6) |
| Bank loan | (150,000) |
| | 165,626 |
| *Less:* Minority interests | (74,532) |
| Total consideration | 91,094 |
| Satisfied by: | |
| Issue of convertible notes | 91,094 |
| **Analysis of net inflow of cash and cash equivalents in respect of acquisition of a subsidiary:** | |
| Cash consideration | – |
| *Less:* Cash and cash equivalents | 11,456 |
| | 11,456 |

## 35. NOTES TO CONSOLIDATED CASH FLOW STATEMENT *(Continued)*

### (b) Disposal of subsidiaries

| | 2006<br>*HK$'000* |
|---|---|
| ***Net assets disposed of:*** | |
| Property, plant and machinery | 5,102 |
| Inventories | 737 |
| Trade and other receivables | 1,202 |
| Bank balances and cash | 929 |
| Trade and other payables | (350) |
| Due to a director | (795) |
| Exchange reserve | (5) |
| | 6,820 |
| Loss on disposal of interests in subsidiaries | (4,820) |
| Total consideration | 2,000 |
| Satisfied by: | |
| Cash | 2,000 |
| ***Analysis of net inflow of cash and cash equivalents in respect of disposals of subsidiaries:*** | |
| Cash consideration received | 2,000 |
| Less: Bank balances and cash of the subsidiaries disposed of | (929) |
| | 1,071 |

## 35. NOTES TO CONSOLIDATED CASH FLOW STATEMENT *(Continued)*

### (c) Major non-cash transactions

***(i) Acquisition of subsidiaries by issuance of the ordinary shares of the Company***

On 25 September 2007, the Group acquired 100% of the issued capital of CBGL from an independent third party. Certain portion of the purchase consideration was satisfied by the issue of 129,342,202 new shares of the Company. The acquisition was completed on 25 September 2007.

***(ii) Convertible bonds***

On 15 March 2006, a wholly owned subsidiary of the Company entered into an agreement with Mr. Pedro Chiang, Mr. Law Kar Po, Mr. Wu Ka I, Miguel, Ms. Leong Lai Heng, Mr. Hoi Man Pak and Mr. Choy Wang Kong, (the "Vendors") in respect of the acquisition of 55% of the issued quota and shareholders' loans of Companhia De Investimento E Desenvolvimento Continental Ocean Limitada (in English "Continental Ocean Investment and Development Company Limited") ("CIDCOL"). CIDCOL is a company incorporated in Macau on 7 October 2005 and its only material asset is a development site located in Lote TN6, Taipa, Macau. The consideration of the acquisition was approximately HK$91.1 million and was satisfied by the issue of 2.5% fixed interest convertible redeemable notes ("convertible notes") by the Company on 28 April 2006. The Vendors, other than Mr. Choy Wang Kong, are the Company's directors or their associates as at 31 December 2006.

Holders of the convertible notes are entitled to elect to convert the convertible notes into Shares of the Company at the conversion price of HK$0.148 per Share (subject to adjustment) until 27 April 2011.

## 36. FINANCIAL INSTRUMENTS

Exposure to credit, liquidity, interest rate and currency risks arises in the normal course of the Group's business. The Group is also exposed to equity price risk arising from its equity investments in other entities and movements in its own equity share price.

The risks are limited by the Group's financial management policies and practices described below.

### (a) Credit risk

The Group's credit risk is primarily attributable to trade and other receivables. Management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis.

In respect of trade and other receivables, individual credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. Trade receivables are due within one to two months from the date of billing. Debtors with balances that are more than two months past due are requested to settle all outstanding balances before any further credit is granted. Normally, the Group does not obtain collateral from its customers.

Investments are normally only in liquid securities quoted on a recognised stock exchange, except where entered into for long term strategic purposes.

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The default risk of the industry and country in which customers operate also has an influence on credit risk but to a lesser extent. At the balance sheet date, the Group has a large number of individual customers with no concentration of credit risk as 16.9% (2006: 16.1%) of the total trade and other receivables was due from the Group's five largest customers within the trading of leather product business segment.

The maximum exposure to credit risk without taking account of any collateral held is represented by the carrying amount of each financial asset, including derivative financial instruments, in the balance sheet after deducting any impairment allowance.

Further quantitative disclosures in respect of the Group's exposure to credit risk arising from trade and other receivables are set out in note 23.

## 36. FINANCIAL INSTRUMENTS *(Continued)*

### (b) Liquidity risk

Individual operating entities within the Group are responsible for their own cash management, including the short-term investment of cash surpluses and the raising of loans to cover expected cash demands, subject to approval by the parent company's board when the borrowings exceed certain predetermined levels of authority. The Group's policy is to regularly monitor its liquidity requirements and its compliance with lending covenants, to ensure that it maintains sufficient reserves of cash and readily realisable marketable securities and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

The following table details the remaining contractual maturities at the balance sheet date of the Group's and the Company's non-derivative financial liabilities and derivative financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the balance sheet date) and the earliest date the Group and the Company can be required to pay:

**The Group**

| | 2007 | | | | | | 2006 | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Carrying amount | Total contractual undiscounted cash flow | Within 1 year or on demand | More than 1 year but less than 2 years | More than 2 years but less than 5 years | More than 5 years | Carrying amount | Total contractual undiscounted cash flow | Within 1 year or on demand | More than 1 year but less than 2 years | More than 2 years but less than 5 years | More than 5 years |
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| Interest-bearing borrowings, secured | 274,775 | 286,335 | 263,155 | 23,180 | – | – | 289,245 | 323,245 | 17,000 | 306,245 | – | – |
| Other loans | 1,531 | 1,566 | 1,566 | – | – | – | 1,496 | 1,531 | 1,531 | – | – | – |
| Bills payable, creditors and accrued charges | 56,582 | 56,582 | 56,582 | – | – | – | 22,543 | 22,543 | 22,543 | – | – | – |
| Amount due to minority shareholder | 308,147 | 308,147 | 308,147 | – | – | – | 129,429 | 129,429 | 129,429 | – | – | – |
| Amounts due to related companies | 171,657 | 171,657 | 171,657 | – | – | – | – | – | – | – | – | – |
| Convertible notes | 171,412 | 280,202 | 6,277 | 6,277 | 267,648 | – | 77,527 | 102,479 | 2,277 | 2,277 | 97,925 | – |
| Obligation under finance lease | – | – | – | – | – | – | 13 | 14 | 14 | – | – | – |
| Amount due to an ex-director | – | – | – | – | – | – | 817 | 817 | 817 | – | – | – |
| | 984,104 | 1,104,489 | 807,384 | 29,457 | 267,648 | – | 521,070 | 580,058 | 173,611 | 308,522 | 97,925 | – |

# 36. FINANCIAL INSTRUMENTS *(Continued)*

## (b) Liquidity risk *(Continued)*

The following table details the remaining contractual maturities at the balance sheet date of the Group's and the Company's non-derivative financial liabilities and derivative financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the balance sheet date) and the earliest date the Group and the Company can be required to pay:

**The Company**

| | 2007 | | | | | | 2006 | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | **Carrying amount** | **Total contractual undiscounted cash flow** | **Within 1 year or on demand** | **More than 1 year but less than 2 years** | **More than 2 years but less than 5 years** | **More than 5 years** | Carrying amount | Total contractual undiscounted cash flow | Within 1 year or on demand | More than 1 year but less than 2 years | More than 2 years but less than 5 years | More than 5 years |
| | ***HK$'000*** | ***HK$'000*** | ***HK$'000*** | ***HK$'000*** | ***HK$'000*** | ***HK$'000*** | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| Other loans | **1,531** | **1,566** | **1,566** | **–** | **–** | **–** | 1,496 | 1,531 | 1,531 | – | – | – |
| Bills payable, creditors and accrued charges | **2,152** | **2,152** | **2,152** | **–** | **–** | **–** | 3,129 | 3,129 | 3,129 | – | – | – |
| Convertible notes | **171,412** | **280,202** | **6,277** | **6,277** | **267,648** | **–** | 77,527 | 102,479 | 2,277 | 2,277 | 97,925 | – |
| | **175,095** | **283,920** | **9,995** | **6,277** | **267,648** | **–** | 82,152 | 107,139 | 6,937 | 2,277 | 97,925 | – |

## 36. FINANCIAL INSTRUMENTS *(Continued)*

### (c) Interest rate risk

The Group's interest rate risk arises primarily from the Group's cash and cash equivalents, bank deposits and bank loans. Borrowings issued at variable rates and at fixed rates expose the Group to cash flow interest rate risk and fair value interest rate risk respectively. The Group does not use financial derivatives to hedge against the interest rate risk. The Group's interest rate profile as monitored by management is set out in (i) below.

#### *(i) Interest rate profile*

The following table details the interest rate profile of the Group's and the Company's net borrowings (as defined above) at the balance sheet date.

| | The Group | | | | The Company | | | |
|---|---|---|---|---|---|---|---|---|
| | **2007** | | 2006 | | **2007** | | 2006 | |
| | **Effective interest rate** | | Effective interest rate | | **Effective interest rate** | | Effective interest rate | |
| | **%** | ***HK$'000*** | % | *HK$'000* | **%** | ***HK$'000*** | % | *HK$'000* |
| **Net fixed rate borrowings:** | | | | | | | | |
| Other loan | **2.5%** | **1,566** | 2.5% | 1,496 | **2.5%** | **1,531** | 2.5% | 1,496 |
| Bank loans | **7.798%** | **65,390** | 7.798% | 97,860 | **–** | **–** | – | – |
| Convertible notes | **6.738-7.094%** | **171,412** | 7.094% | 77,527 | **6.738-7.094%** | **171,412** | 7.094% | 77,527 |
| | | **238,368** | | 176,883 | | **172,943** | | 79,023 |
| Variable rate borrowings: | | | | | | | | |
| Bank loans | **5.20-8.32%** | **209,385** | 5.94-8.32% | 191,385 | | **–** | | – |
| | | **209,385** | | 191,385 | | **–** | | – |
| Total net borrowings | | **447,753** | | 368,268 | | **172,943** | | 79,023 |
| Net fixed rate borrowings as a percentage of total net borrowings | | **53%** | | 48% | | **100%** | | 100% |

## 36. FINANCIAL INSTRUMENTS *(Continued)*

### (c) Interest rate risk *(Continued)*

#### *(ii) Sensitivity analysis*

At 31 December 2007, it is estimated that a general increase/decrease of 50 basis points in interest rates, with all other variables held constant, would decrease/increase the Group's profit after tax and retained earnings by approximately HK$1,060,095 (2006: HK$964,405).

The sensitivity analysis above has been determined assuming that the change in interest rates had occurred at the balance sheet date and had been applied to the exposure to interest rate risk for both derivative and non-derivative financial instruments in existence at that date. The 50 basis point increase or decrease represents management's assessment of a reasonably possible change in interest rates over the period until the next annual balance sheet date. The analysis is performed on the same basis for 2006.

### (d) Currency risk

#### *(i) Forecast transaction*

The majority of the Group's transactions are denominated in the functional currency of the entity to which they relate. Presently, the Group has no hedging policy with respect to foreign exchange exposure. The Group's transactional currencies are United States Dollars ("USD") and Hong Kong dollars ("HKD") as substantially all the turnover are within Hong Kong and certain overseas markets and all revenue and costs being denominated in USD and Hong Kong dollars. The Group's transactional foreign exchange exposure was insignificant.

With respect to trade debtors and creditors which are denominated in United States dollars (USD), the impact of foreign exchange fluctuations is insignificant as the HKD is pegged to USD.

## 36. FINANCIAL INSTRUMENTS *(Continued)*

### (d) Currency risk *(Continued)*

#### *(ii) Exposure to currency risk*

The following table details the Group's and the Company's exposure at the balance sheet date to currency risk arising from forecast transactions or recognised assets or liabilities denominated in a currency other than the functional currency of the entity to which they relate.

**The Group**

| | **2007** | | | | 2006 | | | |
|---|---|---|---|---|---|---|---|---|
| | **United States Dollars** | **Renminbi** | **MOP** | **EUR** | United States Dollars | Renminbi | MOP | EUR |
| | ***'000*** | ***'000*** | ***'000*** | ***'000*** | *'000* | *'000* | *'000* | *'000* |
| Trade and other receivables | **16** | **54,726** | **1,071** | **–** | 4 | 147 | 173 | – |
| Cash and cash equivalents | **405** | **20,184** | **214** | **7** | 389 | – | 3,950 | 1 |
| Trade and other payables | **(613)** | **(347,803)** | **(242)** | **(4)** | (898) | – | (15) | (41) |
| Gross exposure arising from recognised assets and liabilities | **(192)** | **(272,893)** | **1,043** | **3** | (505) | 147 | 4,108 | (40) |
| Net exposure arising from recognised assets and liabilities | **(192)** | **(272,893)** | **1,043** | **3** | (505) | 147 | 4,108 | (40) |
| Highly probable sales | **–** | **5,000** | **–** | **100** | – | 4,000 | – | 60 |
| Highly probable purchases | **(3,500)** | **–** | **–** | **(400)** | (234) | (300) | – | (300) |
| Gross exposure arising from forecast transactions | **(3,500)** | **5,000** | **1,043** | **(300)** | (234) | 3,700 | – | (240) |
| Net exposure arising from forecast transactions | **(3,500)** | **5,000** | **–** | **(300)** | (234) | 3,700 | – | (240) |
| Overall net exposure | **(3,692)** | **(267,893)** | **1,043** | **(297)** | (739) | 3,847 | 4,108 | (280) |

# 36. FINANCIAL INSTRUMENTS *(Continued)*

## (d) Currency risk *(Continued)*

### *(ii)* ***Exposure to currency risk*** *(Continued)*

**The Company**

| | **2007**<br>***Renminbi***<br>***'000*** | 2006<br>*Renminbi*<br>*'000* |
|---|---|---|
| Trade and other receivables | **50,055** | – |
| Net exposure arising from recognised assets and liabilities | **50,055** | – |
| Overall net exposure | **50,055** | – |

### *(iii)* ***Sensitivity analysis***

The following table indicates the approximate change in the Group's loss after tax (and accumulated losses) and other components of consolidated equity in response to reasonably possible changes in the foreign exchange rates to which the Group has significant exposure at the balance sheet date. The sensitivity analysis includes balances between group companies where the denomination of the balances is in a currency other than the functional currencies of the lender or the borrower.

# 36. FINANCIAL INSTRUMENTS *(Continued)*

## (d) Currency risk *(Continued)*

### *(iii)* ***Sensitivity analysis*** *(Continued)*

**The Group**

| | **2007** | | 2006 | |
|---|---|---|---|---|
| | **Increase in foreign exchange rates** | **Effect on loss after tax and accumulated losses** | Increase in foreign exchange rates | Effect on loss after tax and accumulated losses |
| | ***%*** | ***HK$'000*** | *%* | *HK$'000* |
| United States Dollars | **5** | **1,440** | 5 | 288 |
| Renminbi | **5** | **14,332** | 5 | 4,116 |
| MOP | **5** | **54** | 5 | 212 |
| EUR | **5** | **406** | 5 | 154 |

The sensitivity analysis has been determined assuming that the change in foreign exchange rates had occurred at the balance sheet date and had been applied to each of the Group entities' exposure to currency risk for both derivative and non-derivative financial instruments in existence at that date, and that all other variables, in particular interest rates, remain constant.

The stated changes represent management's assessment of reasonably possible changes in foreign exchange rates over the period until the next annual balance sheet date. In this respect, it is assumed that the pegged rate between the Hong Kong dollar and the United States dollar would be materially unaffected by any changes in movement in value of the United States dollar against other currencies. Results of the analysis as presented in the above table represent an aggregation of the effects on each of the Group entities' loss after tax and equity measured in the respective functional currencies, translated into Hong Kong dollars at the exchange rate ruling at the balance sheet date for presentation purposes. The analysis is performed on the same basis for 2006.

## (e) Equity price risk

The Group is exposed to equity price changes arising from equity investments classified as trading securities (see note 20). The Group's listed investments are listed on the Stock Exchange of Hong Kong. The management monitors regularly the performance of the investments against expectation, together with an assessment of the relevance to the Group's long term strategic plans.

## 36. FINANCIAL INSTRUMENTS *(Continued)*

### (f) Fair values

The fair values of cash and cash equivalents, bank deposits, trading securities, trade and other receivables, trade and other payables and accrued expenses are not materially different from their carrying amounts because of the immediate or short term maturity of these financial instruments.

As set out in notes 18, 23 and 26, the Company had loan to subsidiaries and amounts due from/to subsidiaries, the carrying amounts approximate their fair values.

### (g) Estimation of fair values

The following summarises the major methods and assumptions used in estimating the fair values of the following financial instruments.

***(i) Trading securities***

Fair value is based on quoted market prices at the balance sheet date without any deduction for transaction costs.

***(ii) Interest-bearing borrowings and receivables***

The fair value is estimated as the present value of future cash flows, discounted at current market rates for similar financial instruments.

## 37. CONTINGENT LIABILITIES

As at the balance sheet date, the Company has issued a single guarantee to a bank in respect of a banking facility granted to a wholly owned subsidiary.

As at the balance sheet date, the directors do not consider it is probable that a claim will be made against the Company under the guarantee. The maximum liability of the Company at the balance sheet date under the single guarantee issued is the outstanding amount of the facility drawn down by the subsidiary of HK$65,390,000 (2006: HK$97,860,000).

At the balance sheet date, the Group had no other significant contingent liabilities (2006: Nil).

## 38. RELATED PARTY TRANSACTIONS

Save as disclosed elsewhere in these financial statements, the Group had the following transactions with related parties during the period:

**(a)** Mr. Lee Sam Yuen, John (an ex-director of the Company) and Mrs. Lee Shiao Yu Cho, (a close family of Mr. Lee Sam Yuen, John), provided a personal guarantee of HK$100 million (2006: HK$100 million) to a bank to secure general banking facilities granted to a subsidiary, for which no charge is made.

**(b)** The Group has leased certain properties from D.H. International Limited ("D.H. International"), a related company owned by a foundation of which Mrs. Lee Shiao Yu Cho and Mr. Lee Sam Yuen, John are beneficiaries, at an aggregate monthly rental of HK$107,000 (2006: HK$107,000). Total rental paid during the year and deposit paid amounted to HK$1,284,000 (2006: HK$1,284,000) and HK$218,000 (2006: HK$218,000) respectively.

In addition to the above, D.H. International has provided an all monies mortgage over six properties held and an assignment of the benefits under insurance policy over those properties to a bank to secure general banking facilities granted to a subsidiary of the Company.

**(c)** On 30 May 2005, a subsidiary of the Company as a tenant, entered into a tenancy agreement with Precision Advance Limited which is owned as to approximately 33.3% by Mr. Law Kar Po, a director and substantial shareholder of the Company, and as to approximately 66.7% by Mr. Law's relatives. The total rental expenses and related expenses paid for the year ended 31 December 2007 amounted to HK$Nil (2006: HK$940,000).

**(d)** The Group had entered a Management Service Agreement with ACE Channel Limited, which Mr. Gao Feng is the director and sole shareholder. Pursuant to the Management Service Agreement, ACE agreed to provide project management services in connection with the development, marketing and sale of the property development project in Shenyang, the PRC. The basic service fee is HK$500,000 per month for a term of three years from 13 October 2007 to 12 October 2010. During the year, a management fee of HK$1,306,000 (2006: Nil) was charged to the Group. The Management Service Agreement constituted a continuing connected transaction. For details, please refer to the announcement of the Company dated on 19 February 2008.

## 38. RELATED PARTY TRANSACTIONS *(Continued)*

**(e)** During the year ended 31 December 2006, the Group has transferred the retail assets of the shoes and bags retail business to a related company, of which Mr. Law Kar Po and Ms. Law Wing Yee, Wendy are the directors, for a consideration of HK$950,000. Retail assets included, but not limited to inventories as at commencement of business of 15 June 2006, equipment, fixed assets, contracts, business records, rights to use of licences and interests in the entire issued share capital of Star Power Trading Limited and Star Chain Enterprises Limited which are all related to the shoes and bags retail business. Upon completion of such sale and purchase on 30 June 2006, the Group ceased to conduct the shoes and bags retail business. Total loss arising from this transaction amounted to HK$2,077,000.

### (f) Key management personnel remuneration

Remuneration for key management personnel of the Group, including amounts paid to the Company's directors as disclosed in note 8 and certain of the highest paid employees as disclosed in note 9, is as follows:

| | **2007** | 2006 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Short-term employee benefits | **9,087** | 6,723 |
| Post-employment benefits | **64** | 161 |
| | **9,151** | 6,884 |

Total remuneration is included in "staff costs" (see note 6(b)).

### (g) Financing arrangements

(i) The outstanding balances with these related parties are unsecured, interest free and have no fixed repayment terms. The loans owed to related parties are included in "Trade and other payables" (note 26).

(ii) No provisions for bad or doubtful debts have been made in respect of these loans.

Details of new loans and loans repaid during the period are disclosed in the cash flow statement.

## 39. COMPARATIVE FIGURES

As a result of adopting HKFRS 7, *Financial Instruments: Disclosures*, and the amendments to HKAS 1, *Presentation of financial statements: Capital disclosures*, certain comparative figures have been adjusted to conform with changes in disclosures in the current year and to show separately comparative amounts in respect of items disclosed for the first time in 2007. Further details of these developments are disclosed in note 3.

## 40. COMMITMENTS

**(a)** Capital commitments outstanding at 31 December 2007 not provided for in the financial statements were as follows:

| | The Group | |
|---|---|---|
| | **2007** | 2006 |
| | ***HK$'000*** | *HK$'000* |
| Commitments for the acquisition of property, plant and equipment – contracted but not provided for | **1,033,473** | – |

**(b)** At 31 December 2007, the total future minimum lease payments under non-cancellable operating leases in respect of properties are payable as follows:

***(i) As lessee***

At 31 December 2007, the Group had total outstanding commitments for future minimum lease payable under non-cancellable operating leases in respect of properties, plant and equipment which fall due as follows:

| | The Group | |
|---|---|---|
| | **2007** | 2006 |
| | ***HK$'000*** | *HK$'000* |
| Within one year | **2,794** | 2,777 |
| After 1 year but within 5 years | **2,071** | 296 |
| | **4,865** | 3,073 |

***(ii) As lessor***

At 31 December 2007, the Group had total future minimum lease receivable under non-cancellable operating leases falling due as follows:

| | The Group | | | |
|---|---|---|---|---|
| | **2007** | | 2006 | |
| | **Investment properties** | **Others** | Investment properties | Others |
| | ***HK$'000*** | ***HK$'000*** | *HK$'000* | *HK$'000* |
| Within one year | **645** | **650** | 645 | 377 |
| After 1 year but within 5 years | **2,871** | **–** | 2,871 | 169 |
| | **3,516** | **650** | 3,516 | 546 |

The Group leased out certain buildings under operating lease with average lease terms of 2 years.

## 41. PLEDGE OF ASSETS

**(a)** At 31 December 2007, the Group pledged the following assets to secure general banking facilities granted to the Group:

| | The Group | |
|---|---|---|
| | **2007** | 2006 |
| | ***HK$'000*** | *HK$'000* |
| Investment property | **62,100** | 61,114 |
| Land use rights under development | **143,470** | – |
| Properties under development | **75,635** | 389,267 |
| Properties held for sale | **61,889** | 85,662 |
| Non-current asset held for sale *(note 27(e))* | **314,276** | – |
| | **657,370** | 536,043 |

**(b)** At 31 December 2007, bank deposits of HK$100,000 (2006: HK$100,000) were pledged as security for the issuance of a guarantee letter for a construction project.

## 42. NON-ADJUSTING POST BALANCE SHEET EVENTS

### (a) Disposal of certain properties in Macau

As disclosed in the announcement issued on 2 January 2008, Super Times Far East Limited, a wholly-owned subsidiary entered into an agreement with Cheer Up Investments Limited ("Cheer Up"), which is wholly owned by Mr. Law Kar Po, the Chairman and Executive Director as well as a shareholder of the Company, to dispose of 12 residential units at various floors and 12 car parking spaces of Edificio Chu Kuan Mansion (珠江大廈) (the "Properties") to Cheer Up. The consideration of the Properties was HK$39,109,932. The completion of the transaction will be on or before 7 April 2008.

### (b) Completion of Placing of New Shares

As disclosed in the announcement issued on 9 January 2008, the placing agent has successfully placed a total of 430 million shares of the Company at a placing price of HK$0.41 per shares to China Life Franklin Asset Management Co. Limited and Baron International Limited as well as CQS Convertibles & Quantitative Strategies Master Fund Limited. The placing Shares represent approximately 12.07% of the existing issued share capital.

## 42. NON-ADJUSTING POST BALANCE SHEET EVENTS *(Continued)*

### (c) Non-legally binding MOU to develop an infrastructure projects in Nigeria

As disclosed in the announcement issued on 2 April 2008, the Company entered into a non-legally binding MOU with Pan-China Construction Group Limited ("Pan-China Construction"), a minority interest shareholders of a subsidiary, to express their interest to develop an infrastructure project in Nigeria in future.

### (d) Framework Agreement with the Government of FuShun City of Liaoning Province (the "local government") to develop FuShun Ecological City in FuShun City

As disclosed in the announcement issued on 2 April 2008, the Company entered into a Framework Agreement dated on that date with the local government in PRC and Pan-China Construction to express their interest to develop the ShenFu Ecological City Project in FuShun City.

### (e) Disposal of subsidiaries

Reference was made to the announcement dated 22 April 2008, the Group disposed of its entire interest in Parsinno International Limited ("Parsinno International"), a company incorporated in Hong Kong with limited liability and a wholly-owned subsidiary. Parsinno International owns 51% equity interest of Son Pou Real Estate Company Limited ("Son Pou"). The major asset of Son Pou is the property located in Macau. Company entered into a provisional sale and purchase agreement with Mr. Ung Sio Hong, an associate of a connected person of the Company, on 19 April 2008. According to the provisional agreement, the consideration for the disposal of Parsinno International is HK$37,026,000. The purchaser will take up the relevant mortgage loan for the property under development of not more than HK$37,400,000.

## 43. ACCOUNTING ESTIMATES AND JUDGEMENTS

### (a) Key sources of estimation uncertainty

Notes 15(b), 32 and 36 contain information about the assumptions and their risk factors relating to valuation of investment property, defined benefits retirement obligations and financial instruments. Other key sources of estimation uncertainty are as follows:

In the process of applying the Group's accounting policies which are described in note 2, management has made the following judgments that have a significant effect on the amounts recognised in the financial statements. The key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

The preparation of financial statements often requires the use of judgment to select specific accounting methods and policies from several acceptable alternatives. Estimates and judgments used in preparing the financial statements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The following is the more significant assumptions and estimates, as well as the accounting policies and methods used in the preparation of the financial statements:

## 43. ACCOUNTING ESTIMATES AND JUDGEMENTS

### (b) Critical accounting judgement in applying the Group's accounting policies

Certain critical accounting judgements in applying the Group's accounting policies are described below.

***(i) Impairment of assets***

The Group tests at least annually whether goodwill and other assets that have indefinite useful lives have suffered any impairment.

Other assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the asset exceeds its recoverable amount. The recoverable amount of an asset or a cash-generating unit has been determined based on the asset's fair value less costs to sell. These assessments require the use of estimates.

The fair value less costs to sell primarily use cash flow projections based on five-year financial budgets approved by management and estimated terminal values at the end of the five-year period, There are a number of assumptions and estimates involved for the preparation of cash flow projections for the period covered by the approved budget and the estimated terminal value, Key assumptions include the expected growth in revenues and operating margin, effective tax rate, growth rates and selection of discount rates, to reflect the risks involved and the earnings multiple that can be realized for the estimated terminal value.

Management prepared the financial budgets reflecting actual and prior year performance and market development expectations. Judgment is required to determine key assumptions adopted in the cash flow projections and changes to key assumptions can significantly affect these cash flow projections and therefore the results of the impairment reviews.

***(ii) Provision for impairment of trade receivables and other receivables***

The Group has no significant concentration of credit risk. The Group makes provision for doubtful debts based on an assessment of the recoverability of trade receivables and other receivables. Provisions are applied to trade receivables and other receivables where events or changes in circumstance indicate that the balances may not be collectible. The identification of doubtful debts requires the use of judgment and estimates. Where the expectation is different from the original estimate, such difference will impact carrying value of receivables and doubtful debt expenses in the period in which such estimates has been changed.

***(iii) Impairment of property, plant and equipment and land lease prepayments***

The Group's property, plant and equipment comprise a significant portion of the Group's total assets. Changes in industry conditions may cause the estimated period of use or the value of these assets to change. Long-lived assets including property, plant and equipment are reviewed for impairment at least annually or whenever events or changes in circumstances have indicated that their carrying amounts may not be recoverable. If any such indication exists, the recoverable amount is estimated.

## 43. ACCOUNTING ESTIMATES AND JUDGEMENTS *(Continued)*

### (b) Critical accounting judgement in applying the Group's accounting policies *(Continued)*

***(iii) Impairment of property, plant and equipment and land lease prepayments*** *(Continued)*

The recoverable amount of an asset is the greater of its net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset, which requires significant judgement relating to the level of revenue and amount of operating costs. The Group uses all readily available information in determining an amount that is a reasonable approximation of the recoverable amount, including estimates based on reasonable and supportable assumptions and projections of revenue and operating costs. Changes in these estimates could have a significant impact on the carrying value of the assets and could result in additional impairment charge or reversal of impairment in future periods.

***(iv) Impairment of receivables***

The Group maintains impairment loss for doubtful accounts based upon evaluation of the recoverability of the accounts receivable and other receivables at each balance sheet date. The estimates are based on the ageing of the accounts receivable and other receivables balances and the historical write-off experience, net of recoveries. If the financial condition of the debtors were to deteriorate, additional impairment may be required.

## 44. POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2007

Up to the date of issue of these financial statements, the HKICPA has issued a number of amendments, new standards and interpretations which are not yet effective for the accounting year ended 31 December 2007 and which have not been adopted in these financial statements.

The Group is in the process of making an assessment of what the impact of these amendments, new standards and new interpretations is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the Group's results of operations and financial position.

In addition, the following developments may result in new or amended disclosures in the financial statements:

| | |
|---|---|
| HKAS 1 (Revised) | Presentation of Financial Statements [1] |
| HKAS 23 (Revised) | Borrowing Costs [1] |
| HKFRS 8 | Operating Segments [1] |
| HK(IFRIC)-Int 11 | HKFRS 2: Group and Treasury Share Transactions [2] |
| HK(IFRIC)-Int 12 | Service Concession Arrangements [3] |
| HK(IFRIC)-Int 13 | Customer Loyalty Programmes [4] |
| HK(IFRIC)-Int 14 | HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction [3] |

[1] Effective for annual periods beginning on or after 1 January 2009

[2] Effective for annual periods beginning on or after 1 March 2007

[3] Effective for annual periods beginning on or after 1 January 2008

[4] Effective for annual periods beginning on or after 1 July 2008

# FIVE YEARS FINANCIAL SUMMARY

## RESULTS

| | For the year ended 31 December | | 9 Months ended | For the year ended 31 March | |
|---|---|---|---|---|---|
| | **2007** | 2006 | 31/12/2005 | 2005 | 2004 |
| | ***HK$'000*** | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| Turnover | **96,119** | 72,873 | 63,949 | 207,107 | 207,902 |
| Profit/(loss) attributable to equity holders of the Company | **101,973** | 57,246 | 38,399 | (108,308) | (491) |
| Dividends | **–** | – | – | – | – |
| Basic earnings/(loss) per share | **3.23 cents** | 2.09 cents | 1.78 cents | (8.85 cents) | (0.06 cents) |
| Diluted earnings/(loss) per share | **2.76 cents** | 1.93 cents | N/A | N/A | N/A |

## ASSETS AND LIABILITIES

| | As at 31 December | | | As at 31 March | |
|---|---|---|---|---|---|
| | **2007** | 2006 | 2005 | 2005 | 2004 |
| | ***HK$'000*** | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| Total assets | **2,215,913** | 1,262,205 | 746,419 | 618,945 | 173,650 |
| Total liabilities | **1,060,608** | 522,004 | 138,615 | 72,169 | 74,362 |
| **NET ASSETS** | **1,155,305** | 740,201 | 607,804 | 546,776 | 99,288 |

# GROUP PROPERTIES

*At 31 December 2007*

## MAJOR PROPERTIES UNDER DEVELOPMENT

| | Location | Intended use | Development progress | Expected date of completion | Site area *(sq m)* | Gross floor area *(sq m)* | Group's interest *(%)* |
|---|---|---|---|---|---|---|---|
| 1. | No. 8 Hunnan West Road and No. 7 Shenying Road, Hunnan New District, Shenyang, Liaoning Province, the People's Republic of China | Residential and Commercial | Construction works commenced | 2009-2010 | 75,532 | 453,264 | 70 |
| 2. | Lote TN6, Cheok Ka Chun, Taipa, Macau | Residential with a shopping arcade and carpark | Planning stage | – | 4,661 | 67,679 | 55 |
| 3. | Nos. 1-5 da Rua de Afonso de Albuquerque, Nos. 4-12 de Rua da Esperanca and Nos. 1-13 da Rua do Tap Siac, Macau | Residential and Commercial | Completion of superstructure | – | 1,085 | 6,120 | 51 |

## MAJOR PROPERTIES HELD FOR SALE

| | Location | Existing use | Gross floor area *(sq m)* | Group's interest *(%)* |
|---|---|---|---|---|
| 1. | 25 units located at South Block, Edificio Comercia Zhu Kuan Mansion, Rua de Madrid No. 169, Macau | Residential | 2,142 | 100 |
| 2. | 58 carparks located at South Block, Edificio Comercial Zhu Kuan Mansion, Rua de Madrid No. 169, Macau | Carpark | 634 | 100 |

## MAJOR PROPERTIES HELD FOR INVESTMENT

| Location | Existing use | Term of lease |
|---|---|---|
| 25 units located at South Block, Edificio Comercial Zhu Kuan Mansion Rua de Madrid No. 169, Macau | Residential | Medium |